HOW CAN RETAIL DRUGGISTS MEET COMPETITION?

A Thesis Presented For The Degree
Of Master of Business Administration

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CONTENTS

LIST OF TABLES

HOW CAN RETAIL DRUGGIST MEET COMPETITION?

CHAPTER I

THE COMPETITION OF THE INDEPENDENT RETAIL DRUGGIST.

The men most prominent in the retail drug business have been divided for several year in their opinions on how the retail druggist can best meet the competition of chain stores, department stores and mail order houses. While their opinions have been divided thus, this competition has become more intense and serious. Drug store statistics show that chains in the retail drug business have increased 121 per cent since 1919.(1) Since before that date there has been a tendency on the part of department stores to consolidate for the purpose of increasing their buying power. In 1927, two of the largest mail order houses announced their intention of entering the chain store field and at this time have opened several stores according to this plan. On the whole, all of these types of retailers have made their appeal for increased business on the basis of price,

(1) "Eastern Drug Market," September 1928 p 11

the result being that the independent druggist is finding it increasingly difficult to meet their selling price. The preservation of pharmacy as it is now conducted being dependent on the retailer's ability to meet this competition, the subject merits intensive study from any angle of approach.

The opinions of druggists have finally come down to three distinct proposals, viz; government control, price maintenance legislation and cooperative retail buying. This study would attempt to find out the relative importance of these proposals as a solution. If any of them is not a solution what further must the druggist do to be able to meet their prices and still make such a profit as will enable him to remain in business?

DEVELOPMENT OF MODERN MARKETING

In medieval times a market, such as we understand the term today, did not exist. While there were some indications that it was beginning to expand before the later years of the eighteenth century it was not until those years that the real expansion began. At that time such a change came about in production that it is commonly called the Industrial Revolution. This change was due in

the most part to a series of inventions which revolution-ized industry. Because of them the division of labor was greatly elaborated and has resulted in our large scale production of today. This tendency to large scale production has had serious economic effects, one of the most important of which is the one which concerns us here --its effect upon the distribution of goods.

The period from the Industrial Revolution to about 1880 was marked by emphasis on production. Distribution during those years was limited to the orthodox system in which the goods passed from manufacturer to wholesaler, to retailer, to consumer. In spite of the emphasis placed upon production during this period and the phenomenal way in which productive power expanded, nevertheless, the market expanded more rapidly. This was due in a large measure to the mechanical discoveries which so expanded production, the canal, the railroad, the steamship, the telegraph and telephone helping to open new markets. Newly discovered countries had to be colonized. The spread of printing and education, with the resulting rise in the standard of living, created new markets for new goods. During this period marketing problems were of little moment---the market was there; the big problem was to supply it.

In the later years of the nineteenth century, however, this condition of affairs became reversed, production finally outrunning the market. It would seem that production then must be lessened, but the contrary was and is true today. Because of indirect costs the producer from this time on has been forced to increase production and develop a market by any means which he can.

RESULT

Studies in production costs have brought to light the importance of the subject of indirect costs. They have shown that an increase of ten per cent in overhead may mean success or failure. It is absolutely necessary that factories be kept running at as near capacity as possible, not only during certain seasons, but every day during the year. The producer is compelled, therefore, to produce the most goods possible and compelled, likewise, to develop new markets and new marketing channels through which to dispose of this increased production.

While studies in production costs have succeeded in decreasing such costs, the same- mainly, because of the human element- is not true in distribution, the costs of which have steadily increased. The division

of labor, about which we have spoken, did not apply only to the splitting up of the mechanical operations necessary to produce an article and the limiting of each one of these operations to an individual, but to a geographical division as well. The marketing problem since that time has been to get the products of these geographical areas exchanged. For several years, we have heard it said that these costs are far too high, and that they must be lowered. The attempts that have thus far been made have sought to eliminate one or more of the middlemen. Chain stores, mail order houses, and cooperative retail buying represent such attempts. On the one hand, the manufacturer hears the cry of the consumer for lower prices and lower distribution costs, and on the other, sees that he must find added channels besides the regular retailer as an outlet for his increased production. The chain store, department store and mail order house, because of their low prices, are popular with the consumer and offer him this added outlet for his products. Consequently, the manufacturer has welcomed them and sold to them on the same or better terms, than to the regular wholesaler.

All three of these new types of distributors have been extremely successful and their business is now

growing enormously. This success has been due in a large measure to the low price at which they are able to sell their goods. This has been possible because of their large buying power, savings and effifiency in management, and large sales due to intensive selling methods. In addition to these advantages they have resorted to so called predatory methods by which the independent retailer, as shown by Tables 1 and 2 Pages 9 and 10, is compelled to sell many advertised goods for less than the price he has to pay for them.

THE WHOLESALER

One of the results, as we have noted, of the Industrial Revolution, was a geographical division of labor. The problem of marketing is to get the products of one area to that of another group which has specialized in the manufacture of some other product and has none of the product of the first area. The aim of marketing should be to get the goods from the producer to the consumer with the least possible additional expense consistent with satisfactory service. The function of producing goods is primarily to give "form" utility to them, while that of marketing is to give "time" and "place" utility. There

can be no question, in the drug business, but that the wholesaler, just as much as the retailer, supplies these latter utilities. His stock is commonly in the neighborhood of 50,000 different items, some of which are collected from all parts of the world. It would be impossible, from a cost point of view, for the retail drug store to carry individual accounts with manufacturers of the various items which he sells. Furthermore, when the druggist needs a great many of his goods, he needs them quickly. Not knowing just which ones he may need, the only solution must be that somebody have a complete stock handy from which he can draw his needs quickly.

The chain store, department store, and mail order houses represent attempts to eliminate the wholesaler, the aim being to get the goods from the producer to the consumer with the least possible expense. While they have succeeded in eliminating some of the expense formerly incurred by the wholesaler, they have not actually eliminated him because they are performing most of the wholesalers functions themselves. This is true more particularly of the chain store. There is no question but that the warehousing function, from the chain store point of view, is the most important service which the wholesaler renders and this is the important function

which the chain store performs for itself. It acts as distributor for its own stores in the same way that the wholesaler acts for the independent store, and as will be shown later, at a considerable saving.

In actual practise some groups of producers as the California Fruit Growers Association, have found it possible and profitable to eliminate the middleman. Such a condition is not possible in the drug business so long as we have the independent retailer. At present, there are 50,000 independent retail drug stores doing 80 per cent of the retail drug business.(1) (This does not take into consideration the merchandise that was formerly sold only in drug store, but which is now sold by department stores, mail order houses, "drugless" drug stores, and other retailers.) The success of the independent drug store depends upon small stocks, which must be turned rapidly. So long as conditions remain as they now are, with many small retailers and many manufacturers all widely scattered from one another, there will have to be some sort of wholesaler, as retailer, manufacturer and consumer are all benefited by him. The wholesaler's cost of performing the various functions which he does are high when compared with those of the cooperative whole-

(1) Pharmacentical Era, October 1927, p. 27

TABLE I. PROFIT IN PATENT MEDICINES WHEN SOLD BY THE INDEPENDENT AT CHAIN STORE PRICES (1)/

Article	Chains Selling Price	Independent's Cost (2)	Profit or Loss Per Cent on Selling Price
Vick's V^apo Rub	.24	.24	o per cent
Scott's Emulsion	.74	.75	1.3 * "
Pisos for Coughs	.24	.24	o " "
Papes Cold Compound	.24	.24	o " "
Maltine and Combinations	.92	1.00	8 * "
Mulsified Cocoanut Oil	.34	.40	15 * "
Bayers Aspirin Tablets	.89	.88	1.1 " "
Hubbard's Germi-cide	1.19	1.00	3.8 " "
Gude's Pepto Mangan	.98	.942	10.6 " "
Caldwell's Syrup Pepsin	.46	.40	14. " "
Fellow's Syrup	.21	.20	10. * "
Grove's Laxative Bromo Quinine	.39	.20	2.5 * "
	.43	.40	7.5 * "
Resinol Ointment	.45	.40	12.5 " "
California Syrup of Figs	.67	.75	6. * "
Pape's Diapepsin	.47	.50	12.6 * "
Listerine	.19		
Baume Gengue			
Beecham's Pills			22.6 " "
Weldona	.97	1.67	

(1) Articles selected at random from advertisement of Liggett's in Boston Post January 25, 1928
(2) Taken from January issue of Eastern Drug Market.
* Loss.

TABLE II. PROFIT IN TOILET PREPARATIONS WHEN SOLD BY THE INDEPENDENT AT CHAIN STORE PRICES (1)

Article	Chains Selling Price	Independent's Cost (2)	Per Cent Profit or Loss on Selling Price
Pinand's Eau de Quinine	.54	.646	19.6 * per cent
Mennes's Talcum	.16	.167	4.4 * " "
Palmolive Shaving Cream	.23	.25	8.7 " "
Golden Peacock Bleach Cream	.69	.67	3. " "
Frostilla	.21	.233	10.9 * " "
Woodbury's Soap	.17	.192	13. * " "
Pepsodent Tooth Paste	.32	.355	10.6 * " "
Mennen's Shaving Cream	.33	.34	3.3 * " "
Hinds Honey & Almond Cream	.69	.73	5.8 * " "
Pebeco Tooth Paste	.32	.34	6.2 * " "
Cuticura Soap	.18	.20	11.1 * " "
Kolynos Dental Cream	.21	.205	.2 " "
La May Face Powder	.45	.34	24.4 " "
Dyer Kiss Face Powder	.55	.40	27.2 " "
Deodo	.33	.34	3.3 * " "
Ipana Tooth Paste	.32	.34	6.2 * " "

(1) Articles selected at random from advertisement of Liggett's in Boston Post. January 25, 1929
(2) Taken from January issue of Eastern Drug Market.
*Loss

saler, as will be shown in the chapter on cooperative retail buying. Whether we shall have the service wholesaler or the cooperative wholesaler in the future, is one of the questions on which an opinion will finally be given.

Having shown the need for the stores with whose competition this study deals and the dependence of the retailer upon the wholesaler, it will be necessary to discuss briefly the competition of these various types of distributors before passing to a discussion of the solution to their competition.

THE MAIL ORDER HOUSE, DEPARTMENT AND CHAIN STORE

The 50,000 retail drug stores of the United States may be divided into three broad classes, viz; country stores, neighborhood stores and city stores. Up to the present time, the first type of store is the one that has felt most keenly the competition of the mail order houses. Since these stores have entered the chain department store field, however, the city and neighborhood drug stores will also feel their competition in the same way that they feel the competition of chain and department stores at present. The most reliable statistics on the importance and extent of the mail order business, show

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[illegible]

[illegible]

[illegible]

[illegible]

that three of the largest did a business in 1924 of $402,584,823. This authority estimates this figure as being about one fourth of the total retail mail order business. Accordingly, the volume of business for that year is given as $1,500,000,000 or 4 per cent of the entire retail trade of the country.(1)

The mail order house has several competitive advantages. In the first place it does an enormous volume of business enabling it to buy from the manufacturer at the lowest possible prices. While it has some items of expense which are comparitively heavy, several, on the other hand, are very low. A mail order house does not have to locate in the high rent district as a cheap rent near a railroad siding is more desirable for its purposes. It can also save on the help since its clerks do not have to meet customers personally, therefore, appearance, pleasing manners, pleasant voice, and the other necessary requisites of the store sales lady or man are not important and allow hiring a cheaper grade of help. Moreover, more sales per day per clerk can be made since they do not have to show goods and wait for customers to make up their minds. As many of the goods advertised, are not carried in stock, but are sent direct

(1) Paul H. Nystrom, Harvard Business Review, January 1925 p. 158

from the factory, a smaller inventory is possible with consequent smaller expense and larger turnover. The chief competitive disadvantages of the mail order house are its large advertising expense for catalogues and its expense for correspondence and delivery.

The 1920 census estimated the number of department stores in the United States at over 11,000. Another writer (1) five years later estimated their number at 6,230, 3,700 of which did an annual business of $50,000, and 445 of which did $1,000,000 or more a year. Accepting the definition of this writer of a department store--"only larger institutions doing an annual business of $50,000 or more"----the total volume of department store business in the United States in 1924 was $4,500,000,000 or 16 per cent of the total retail trade.

The department store like the mail order house buys in such large quantities as to command the manufacturer's lowest price. It employs expert buyers, who are good judges of quality, know values, and can buy job lots and bankrupt stocks most advantageously. In considering department stores it must be remembered that their appeal is made chiefly to the women. It is important then to consider the extent to which women are buying all the

(1) Paul H. Nystrom, op. cit.

household needs. One writer (1) estimates that women now buy 24 per cent of the mens clothing, 90 per cent of the groceries and 75 per cent of all other goods used in the home. Department stores as a rule locate together and form a shopping center to which the women are attracted. In this same connection the ability of the department store to use the daily papers as an advertising medium is important as this advertising is directed to and read by the women who do the buying.

The department store has had one important competitive disadvantage, which is the high cost of the various added services which it renders. In spite of this high expense it has succeeded in meeting other competitors. It would seem that in the future this is going to become of less importance, because the chains having made their appeal wholly on price, if they are to increase their sales volume in the future, will have to give added services which will tend to place them nearer on a par with the department stores in this respect.

The same authority previously quoted (2) estimated in 1925 that there were over 4,000 chains with 35,000 unit stores, representing all retail lines. These stores, he

(1) Converse, "Marketing Methods and Policies," p.257
(2) Paul H. Nystrom, op.cit.

[illegible]

estimated, did a business of over $2,800,000,000 or about 8 per cent of the total retail trade. In the drug business there were in 1926, 2,500 unit stores which were members of chains. These were located in 250 cities and 150 outside towns. The annual volume of sales of these stores was not less than $250,000,000, which is about 20 per cent of the total drug store sales. The cities and towns where these chain stores are located represent 90 per cent of the locations where cut prices prevail.(1)

The competitive advantages of the chain store are more numerous than those of the other types of retailers which we have considered. Their buying power is equal to that of any other retail agency. Like the department store it can use newspaper space for adverising as advantageously and it has proven that it can turn its merchandise quicker than any other type of retailer. It is in a position to hire the highest type of executive management and has proven too that its operating expense is the lowest of any retailer, due principally to the few services which it renders, and various other economies of operation which will be considered later.

Summing up the information here given we find that the competition under consideration does about 28

(1)."Pharmacentical Era," October, 1927 p. 11

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[illegible]

[illegible]

[illegible]

per cent of the total retail business of the United States. In the drug field the chains alone are at present doing at least 20 per cent of the entire drug business which figure does not consider the amount done by the other two types in at least 50 per cent of drug store merchandise which they handle. The enormous buying power of all of them stands out as their strongest competitive weapon. All do a much larger volume of business on the amount of capital invested than the independent retailer, and the chain store's cost of doing business especially, is much lower. The result is that all three are able to sell at a price which the independent has difficulty in meeting.

CHAPTER II

GOVERNMENT REGULATION

In the preceding chapter a study has been made of the three retail agencies that are the chief competitors of the independent retail druggist. Three main solutions have been proposed to enable him to meet their competition, viz; government regulation, price maintenence legislation and cooperative retail buying. It is our purpose now to inquire into each of them to determine if, in fact, any of them offers a complete solution, of ir the druggist must rely on some other means to give him the necessary relief.

LEGISLATION TO CONTROL THE NUMBER OF STORES

Before going into the subject of legislation it is necessary for us to see just what the legal definition of "drug business" is, even though we may think that everybody has a clear conception of its meaning. As defined by Massachusetts law (1) "Drug Business" as used in the two following sections, shall mean the sale, or the keeping and exposing for sale of drugs, medicines, chemicals, or

(1) General Laws of Massachusetts. Chapter 37.

poisons, except as otherwise provided in section thirty-five,[(2)] also the sale or the keeping or exposing for sale of opium, morphine, heroin, codeine or other narcotics or any salt or compound thereof, or any preparation containing the same, or cocaine, alpha or beta eucaine, or any synthetic substitute therefor, or any salt or compound thereof, or any preparation containing the same and the said term shall also mean the compounding and dispensing of physicans' prescriptions."

When we look at the modern drug store and then consider how little of the business done by it is considered "drug business" in the eyes of the law we see at once that it is a business essentially different from any other retail business. On the one hand the druggist is a professional man requiring a technical training and on the other a merchandiser in competition with many other druggists and the various other retailers who carry the same types of merchandise.

The legislation that has been proposed which bears upon the subject of competition has been of three kinds, viz; (1) Legislation to control the number of stores, (2) Legislation intended to keep the management

(2) This section excludes patent and proprietory medicines and a list of drugs, chemicals and poisons used in the arts or as household remedies.

or ownership of drug stores in the hands of registered druggists, (3) Legislation to prevent unfair competition and unfair trade practices.

In the United States there has been a tendency on the part of individuals but more especially on the part of chains to open new stores. This has increased competition and otherwise produced deplorable conditions. Under our competitive system anyone who feels that he can succeed has the right to open a retail store. The young man working as an apprentice looks forward to the day when he will own his own business. The recent graduate from the college of pharmacy feels that upon graduation he is ready to start in as a proprietor. The result is that a great many new stores are being opened.

Two stores are located on the same street a few blocks apart and each store is doing a fairly good business. Each proprietor is able to employ a registered clerk allowing them to take a reasonable amount of time off and give the clerks good working hours. Without sufficient knowledge of the amount of business either store is doing or the exact possibilities of the neighborhood, but simply upon the judgment of an individual, a new store is opened between the two. The trade of the locality previously divided between two stores is now

divided between three; each of the older stores loosing some of its business to the third. The amount of business that any of the stores is now doing does not allow it to comply with the law by keeping a registered clerk in the store at all times. They have lost their positions. The proprietors now come face to face with not only the competition among themselves but with that of all the other types of stores which handle a large proportion of so called drug store merchandise.

The National Association of Retail Druggists at their convention in 1927 passed the following resolution:

> "Whereas, the major menace confronting retail druggists today is the ever increasing multiplicity of new stores, and
> Whereas, this condition is in a measure due to a desire on the part of students in pharmacy to embark in business immediately upon graduation, be it Resolved, that college professors, wholesale druggists, representatives of manufacturing pharmacists and others interested, be requested to acquaint future pharmacists with this deplorable "state of things" - the while urging future proprietors

to acquire stores already established."

In Massachusetts in 1922 there was a net increase of seventy in the number of drug stores. This was the largest increase of any year up to this time as shown by table III Page 22.

The State Board of Pharmacy gave it as its opinion that this increase was due to the fact that most of these stores were being financed by persons not registered as Pharmacists[1]. In its report for 1923 the increase in the number of stores was again mentioned. In this report is said:

> "At the present time there are 1,864 stores, 441 of this number being located in Boston. It is a question whether or not this increase in abnormal compared with the increase in other lines of business. A certain drug magazine in gathering statistics on this point claims that in Massachusetts the increase is not abnormal, but that in several states it is decidedly so, and intimates that the allurement to the drug business in these states is the handling of intoxicating liquors in drug stores".

A study of table IV Page 23 shows that the number of drug stores in 1927 in Massachusetts was less per 1000 inhabitants than it was five, ten, fifteen or

(1) Reports of Massachusetts Board of Pharmacy, 1921

TABLE III. INCREASE IN NUMBERS OF DRUG STORES IN MASSACHUSETTS FROM 1899 to 1927

(Data compiled from reports of the State Board of Pharmacy)

Year	Total No. of Stores	Stores Opened	Stores Closed	Net Increase
1899	1583			
1908	1611			
1909	1674			63
1910	1685	27	16	11
1911	1710	25		25
1912				
1913				
1914	1745			
1915	1751	32	26	6
1916				
1917	1737			
1918	1639			98 *
1919	1657	18		18
1920	1689	32		32
1921	1734	65	20	45
1922	1804	102	32	70
1923	1864	88	28	60
1924	1830	32	66	34 *
1925	1863	56	23	33
1926	1894	68	37	31
1927	1816	93	71	22

* Decrease

twenty years ago. In 1920 only 40% of the druggists in Massachusetts took out licenses to sell liquor and in 1926 only 60 % had licenses and many of these were dispensing less than one perscription per day.(2) These reports bring out the fact that interests outside of druggists themselves are interested in the opening of drug stores. This brings us to the question of ownership laws which will be discussed later. While there has been much talk among druggists for legislation specifically stating the number of drug stores per 1,000 population, Massachusetts has not seen the need for such. Legislation of another type has kept their number at a lower per cent than that of most of the other states.

LEGISLATION TO KEEP MANAGEMENT IN THE HANDS OF DRUGGISTS

The State Board of Pharmacy was created in Massachusetts in 1885 at which time certain control over the drug stores of Massachusetts was given to this board. It was required to report to the Governor annually on its activities. It has been its custom to embody in

(2) Ibid., 1920, 1926

these reports recommendations which it thought would benefit the profession of pharmacy. These recommendations have nearly always been conservative and those which have become laws have undoubtedly benefited pharmacy and the people of the State.

A study of these recommendations shows that they bear upon the subject of competition only in that they have intended to keep the active management of drug stores in the hands of registered pharmacists, (with one exception which will be discussed later,) the intent being to not only protect the public health and safety, but to insure to the druggist that business which properly belongs to him.

The law which we now have regulating the transactions of the retail drug business was passed in 1913.(1) It reads:

"The Board of Registration in pharmacy shall upon the application issue a permit to keep open a store for the transaction of the retail drug business (2) to such persons, firms, or corporations (3) as the Board

(1) Mass. Acts 1913, Chapt. 705
(2) "Drug business" as previously defined under Mass. Laws Chapt. 37
(3) Opportunity will be given later to compare the law of other states in the case of granting licenses to corporations.

may deem qualified to conduct such a store------
and shall expire on the first day of January
following the date of its issue."

Under this law every store must be registerd with the Board, which is given broad powers in determining who should or should not be granted a license. No other person, firm or corporation is permitted to sell drugs at retail except such few drugs as specified in the law. (1)

In determining what partnerships and corporations are qualified, and that the management is in the hands of registered pharmacists, the board has set the interest which the pharmacist or pharmacists must have in the business at 51 per cent of the investment in the case of partnerships and 51 per cent of the capital stock outstanding in the case of corporations.

Two further laws have been passed intended to keep out of the drug business the capital of liquor interests or those outsiders primarily interested in the increased sale of side lines made possible by the prestige of drug stores and the profits therefrom. One of these is as follows: (2)

"No such permit shall be issued for a corporation
to keep open a store for the transaction of the

(1) General Laws, Chapt 112, Sect. 35
(2) Acts of 1913, Chapt. 705, Sect. 4

TABLE IV NUMBER OF DRUG STORES PER 1000 POPULATION IN MASSACHUSETTS IN THE 5 YEAR PERIODS FROM 1900 to 1925

(Data compiled from reports of the State Board of Pharmacy)

Year	Population	No. of Stores	Stores per 1000 Inhabitants
1900	2,805,346	1583	1 to 1,772
1905	3,003,635	-	-
1910	3,366,416	1685	1 to 1,998
1915	3,693,310	1751	1 to 2,109
1920	3,852,356	1689	1 to 2,280
1925	4,144,205	1863	1 to 2,224

TABLE V NUMBER OF DRUG STORES PER 1000 POPULATION IN CITY OF BOSTON FOR THE YEARS 1899-1923-1927(1)

(Date compiled from reports of the State Board of Pharmacy)

Year	Population (1)	No. of Stores	Stores per 1000 Inhabitants
1899	560,892	332	1 to 1,690
1923	748,060	441	1 to 1,696
1927	781,529	412 *	1 to 1,897

*From "Boston- An Old City with New Oportunities" issued by Boston Chamber of Commerce, 1928

(1) Figures for populations are for the years 1900, 1920, 1925.

retail drug business, unless it shall appear to the satisfaction of said board that the management of the drug business in such stores is in the hands of a registered pharmacist."

To prevent the management from getting into other hands the following law was passed:(1)

"No unregistered co-partner or unregistered stockholder in a corporation doing a retail drug business shall hereafter be actively engaged in the drug business---- the terms "personal supervision" as used in the act shall mean that a registered pharmacist is in charge and present in the store."

The Supreme Court of Massachusetts has ruled that "management" in the first quoted law refers only to personal supervision of the store itself.(2) In the second quoted law the attorney general has defined "actively engaged" to mean the doing of any work in the store. Briefly, then the laws referred to mean that a corporation cannot do drug business in Massachusetts unless 51 per cent of the capital stock outstanding is owned by a druggist and that no stockholder unless he is a registered pharmacist can do any work in the store and that the

(1) Acts of 1913, Chapt. 720, Sect. 1
(2) Jaynes Drug Company vs. William S. Flint et als.

supervision of the store, which has been approved by the State Board of Pharmacy and granted a license to keep open as such, must be in the hands of a registered pharmacist. The result has been to indirectly control the number of stores by keeping the management of the stores in the hands of druggists. In addition by preventing unregistered stockholders from doing any work in the store, Massachusetts has also avoided passing any direct ownership laws which will be discussed later.

REGULATION OF UNFAIR COMPETITION AND TRADE PRACTICES

In two other years the Board of Pharmacy has recommended legislation of a radically different nature, but which the legislature has not seen fit to enact. In 1913 it recommended as follows:

> "There is a feeling among the druggists in general that they suffer from unfair competition and unfair trade practices. The Board would recommend the enactment of a law by the legislature of this Commonwealth similar to the one enacted in the State of New Jersey (1) which took effect April 1, 1913. This act would prevent unfair trade practices

(1) Revised Laws. State of N.J. Chapt. 210

and unfair competition."

The law referred to does not apply to druggists alone, but to any "merchant.firm or corporation," and to the "name, brand, trade mark, reputation or good will of any maker in whose product said merchant, firm, or corporation deals." It involves the whole question to price maintenance to which a later chapter is devoted. The Board clearly forgot the definition of "drug business" called to the attention of the reader at the beginning of the present chapter. It wanted protection for the drug store as generally known, forgetting that there was no unfair competition or trade practices in the "drug business" as interpreted by law. It was a case of a limited class of merchants- druggists- recommending legislation that would apply to all retailers. The recommendation was not heeded by the legislature.

In 1916, the State Board of Pharmacy said [1] "We believe that medicines of WHATEVER NATURE [2] should be restricted to properly registered drug store or to such departments of stores as are supervised by registered pharmacists-------The Board feels that the time has come to request legislation for the supervision of these

(1) State Board of Pharmacy Reports. 1916
(2) Capitals supplied by author

unregistered persons and stores and it feels THAT IT IS COMPETENT TO SUCESSFULLY CARRY ON THE WORK AND TO MAKE RULES AND REGULATIONS GOVERNING THE SAME."(1)

It has previously been pointed out that provision is made under Massachusetts law for the sale of a number of drugs, chemicals and poisons in stores, other than drug stores, the reason being that they are used in the arts. It is evident from a reading of this recommendation that, if passed, such legislation might become far reaching in its effect. The Board forgot again, the dual capacity of the druggist and was asking for legislation that effected both sides of his business and consequently interfered with other retailers. Its consequence would be to take away certain items from the stock of certain retailers or else place supervision of their sale in the hands of the state through the State Board of Pharmacy. The store at which the legislation was aimed was the so-called "drugless drug store" which opens on the opposite corner from the legitimate druggist and takes away much of his business. The "drugless drug store" shows clearly how little of the stock of the modern drug store belongs to the "drug business" as defined by law.

(1) Capitals supplied by author.

As in the previous case cited the Board was asking for protection as a merchandiser and not as a druggist.

GOVERNMENT REGULATION

A great many druggists think at once of having a law passed setting the number of drug stores a state may have, who may engage in the business, or what articles they may sell. Too often to meet other difficulties they think first of putting a law on the statute books making this or that a violation of the law and providing a penalty. They say at once, "In former times the State provided by law the number of saloons that could operate per thousand persons, that today through a banking commission it provides the number of banks according to the probable amount of business, why not regulate the number of drug stores?" It is easy to apply this reasoning to drug stores because of the nature of the business and the fact that the public health is involved. Many consider that the issue of medicine to the sick is properly a public function; that it should be regulated or supervised as are our public utility companies because, like them, the dealing in medicine is a business "effected with a public interest." They forget, however, the fact that the

business must be narrowed down to the present legal definition of the business, if the state is finally to control it. It would be little more than a hospital dispensary in this case and most druggists do not want this, although they are attempting to pass laws governing it as it is now operated.

A law recently passed by the Legislature of Pennsylvania was declared constitutional on December 18, 1927, by a special court of equity of that state. It requires that all owners and stockholders of a corporation must be registered pharmacists in the State of Pennsylvania. This legislation was bitterly fought by Louis K. Liggett, President of the Liggett chain of drug stores because it was chains in general, and his chain in particular, at which this legislation was aimed. On advice of his counsel the case has been appealed to the Supreme Court of the United States. If it is upheld by this body, Mr. Liggett, as president, director, and stockholder, as well as the other thousands of stockholders, must become registered pharmacists in the State of Pennsylvania before any more stores may be opened or any of the present stores moved to new locations. Furthermore, it is a provision in the State of Pennsylvania that all candidates for examination must be graduates of an approved College of

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Pharmacy.

This legislation has been hailed generally in pharmacentical circles as a severe blow to chain stores and suggestions have been made editorally in many of the pharmacentical papers that such a law should be passed in all the other states.

PROPOSED LEGISLATION SHOULD BE WELL CONSIDERED.

The legislature when passing a law always has a definite purpose in mind in so doing. Experience has proven, however, that the law oftentimes has effects which were not anticipated and sometimes not wanted. It is not unreasonable to suppose that if the state restricts the number of drug stores, thus protecting those in business from the possibility of new stores opening, that it might feel justified in expecting or FORCING druggists to do something they might not want to do.

The law as it now stands in Massachusetts requiring fifty one per cent of the capital stock of a corporation to be owned by a druggist or druggists, had in mind the preventing of drug store chains. On the other hand, it has worked a hardship on the druggist himself in acquiring a store already established. It has prevented him from taking full advantage of our

corporation law. In any other line of business there is nothing to prevent an individual with a knowledge of that line to raise ALL the capital necessary to finance the business by incorporating. The phenomenal growth of business in the United States is in no small measure due to the ease with which capital can be raised under the corporate form of organization.

Pennsylvania has gone a step farther than Massachusetts or any other State by requiring that all the money necessary to incorporate a drug store be raised from druggists themselves, because all stockholders must be registered pharmacists. This legislation will prevent the Liggett chain from expanding in Pennsylvania, but it will work a greater hardship on the individual druggist of Pennsylvania than the Massachusetts law does on its individual druggists. Moreover, is it absolutely certain that it will accomplish the results that are expected?

It has been proven conclusively to a great many business men, (or at least they are certain in their own minds), that there are a great many economies in mass distribution, as evidenced by the chain store, that cannot be met by the independent store. No definite information is available to determine just what proportion of drug store sales as a whole are for drugs exclusively and what

proportion is for the so called lines of sundries. There is no question but that the sales of the later greatly exceed the former- the figures often seen in the drug journals being drugs ten per cent, other lines, ninety per cent. It seems that no further proof is necessary than the fact that the so called "drugless drug stores" have come into being, and are as a rule successful, the drug side lines being able to support them. The drug chains which are hurting the independent druggist in a competitive way feature drug side lines rather than drugs themselves.

If Liggett's, should the opinion of the Supreme Court be against it, decides to open and operate additional stores of the "drugless" type in Pennsylvania, as Mr. Liggett has often been quoted as saying he intended to do, what then will be the effect of this legislation? Certainly not the effect that has been expected. The independent druggist or druggists as a group, if necessity compels them to organize and operate their own warehouses as the chains do, will be required to put in a large amount of capital, as mass distribution requires large amounts of capital. They will be required also to raise this capital from their own number, whereas the capital of investors generally will be open to the drugless chain.

Such a possibility seems entirely reasonable when we look around and see the types of chains that are organizing daily and note the extent to which they are handling drug store merchandise. Furthermore, a great many more types are possible. If, as has been proven to a great many people, including the investing public, the chain store method of distribution is economically sound, there can be no other result. The W. T. Grant Company, The Sears, Roebuck chain, The Montgomery Ward & Company chain, the new Schulte chain, and the possible drugless store chains are examples. The success of these stores is proving that price appeal and the purchasing value of the dollar is the deciding factor of ninety per cent of consumers in their choice of stores. While intended originally to aid the independent druggist it will hinder him in meeting the very competition it was intended to curb.

The New York ownership law requires that an individually owned pharmacy or drug store shall be owned by a registered pharmacist or druggist and in the case of a co-partnership all the partners must be registered. pharmacits or druggists. The Illinois law goes farther and says that in the case of a corporation the officers must be registered pharmacists in good

standing. Both of these laws in regard to ownership are stricter than Massachusetts laws, yet they have not prevented the formation of chains, as two of our largest ones operate as extensively in both states as one of them does in Massachusetts.

It does not necessarily follow that because a druggist is a good merchandiser he is any the less a good druggist. As drug stores are operated in the United States to be successful, he must be both. In fact, it will be shown later that the fact that he is not as good a merchandiser or business man as his chain store opponent is one of the chief reasons why he cannot compete with him. If legislation is continually demanded, the type of drug store will gradually change toward the handling of drugs exclusively. That class of druggists which sees greater opportunities for financial success in drug stores as now operated will have this type of store forced upon it by legislation. While ownership legislation, which is so popular now, may seek to meet chain store competition, it cannot be denied that as a merchandising store, which every drug store is to a greater or less extent, it will be in a less favorable position in regard to raising outside capital than the other types of stores against which it must compete.

The Sherman Act was passed in 1890 to put an end to trusts and restore competition. In all decisions of the Supreme Court since that date it has sought to determine whether or not there has been sufficient restraint of trade to prevent free and full competition. The purpose of the law was to restore competition. Now we are faced with the proposition that chain stores are competing with the independent retailers, but the chains themselves are characterized by some as a distribution monoply and that their activities should be curbed. If this be true a monopoly has developed by the insistence upon a law which was passed to destroy monopolies. The price maintenance laws which are trying to be passed are attempting to make legal a contract between manufacturer and distributor which before 1890 was legal but made illegal by the Sherman Law of that year. The following quotation from an address of Dr. James H. Beal illustrates the point:[1]

"When the net of the Sherman Act was spread for monopolists, the small manufacturers and dealers who advocated it thought they were enclosing their adverseries beyond the possibility of escape. But the big fellows soon discovered means of evading

(1) "The Philosophy of Conservatism" delivered at the convention of the N.A.R.D. at Kansas City, Sept. 1927

the law; the powerful voting groups, labor and agriculture were voluntarily released by Congress and only the small fry were caught. Now we are fighting with might and main to recover the liberty of contract which our predecessors a generation ago so willingly gave up."

SOCIALISTIC DRUG LEGISLATION

Retail druggists should be very careful in voluntarily consenting to allow the State to get too much control over the conducting of drug stores by the passage of legislation seemingly favorable to them. The result might be complete socialization without their consent. Public utilities are granted a monopoly in their field but through a commission are supervised and by whom the rate which they may charge for the commodity or service which they sell is set. While it might seem desirable to conduct a business heavily protected by law it might not seem so desirable if it were carried to a point where the State would say what goods could be sold, what prices might be asked, and compel the druggist to submit his books and a statement of his profits. This might be the final result, however, if law after law were passed giving him more and more protection. Even much severer competition than he has today might be more

desirable.

COMPETITION

The United States is the richest country on earth today. In the field of industry our development has never been equaled, likewise our financial position is an enviable one! In the matter of distribution, however, mainly because of the personal equation, we have not reached the position we have in other fields, nor succeeded in reducing distribution costs. On the contrary selling costs have increased. Our best minds are now being turned the problem, and there is no question but what it will be solved as the others have been.

We have obtained all this success under a system of competition. Competition has produced new goods, new methods, new luxuries and new pleasures. We would not want to go back to the conditions of the past. Although simpler, life was more meagre and narrower. Our present state of prosperity and happiness is due to initiative and competitive selling.

In the drug business because of its nature and the fact that the health of the people is involved, the State must supervise the promiscous selling of drugs.

Nevertheless, this supervision should be limited to this class of merchandise and be of the least possible amount to accomplish its purpose. Competition as between drug stores themselves or between drug stores and their outside competitive stores should not be made a matter of legislation. We may leave the subject of government regulation by saying that the trade evils in this business resulting from the interaction of economic forces can be better handled by other means. While it might be a solution to our problem here, it is not a desirable one, Legislation of the kind tending to government control should be avoided.

CHAPTER III

PRICE MAINTENENCE

The chain store, mail order house and department store have all increased their competitive position at the expense of the retailer partly at least on the basis of price cutting. To substantiate this premise it is only necessary to quote the opinion of one authority (1) among many who hold this view, who says: "Department stores in the drug field, mail order houses in the hardware trade, and chain stores in both the drug and grocery trade, have increased their competitive position at the expense of the independent retailer partly on the basis of price cutting." Legislation to prevent price cutting naturally follows as a solution to this competition.

This price cutting has been confined to nationally advertised, trade marked goods upon which a retail selling price has been set by the manufacturer. The consumer knowing the price at which an advertised article

(1)"Cooperative Retail Buying in the Drug and Grocery Trades," Wilford L. White, Harvard Business Review Oct.1928 p.59

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is intended to be sold can readily see the saving to him when the price he pays is less than the manufacturer's set price. Used as an advertising force cut prices bring customers into the store at which time an attempt is made to sell another article on which there is a larger profit. Such a method is called predatory price cutting. Price maintenance legislation as a complete solution to the competition of these types of distributors assures that if the weapon of cutting prices on advertised goods is taken from them, the small retail dealer will then be able to compete with them because his profit on these advertised articles is assured him by law.

Volumes have appeared in different trade journals for and against such legislation but in the main they are only opinions of different people, borne out by statistics of a very scant nature. The Federal Trade Commission gives as one of its reasons for its resolution of July 25, 1927 that "WHEREAS, there has been no thorough and comprehensive investigation of the economic advantages and disadvantages of such legislation, RESOLVED, that the chief economist of the commission be directed to inquire into the question of the maintenance of manufacturer's resale prices both at wholesale and retail and report to the commission (certain facts enumerated) and

and finally-- The character of the legislation, if any, which should be recommended by the commission." No private agency is capable of inquiring into the facts as thoroughly as the Federal Trade Commission and if there was such an agency any finding by it on the question would always be open to the suspicion of bias one way or another.

The subject is an extremely broad one and highly debatable, nevertheless, it is one which touches vitally upon the subject of price cutting and other trade evils and upon the future business of both manufacturers and distributors. It must be looked at from two standpoints, the economic and legal. This thesis does not attempt to solve the problem, but does attempt to show its present legal status by showing the trend of the reasoning of the Supreme Court in the important cases and to show that there is a possibility that no legislation further than that which we now have will ever be passed, at least in the near future. It will be studied from an economic point of view only sufficiently to show that there is a possibility, if passed, that it will be inadequate as a solution of the problem it is intended to solve.

HISTORY AND PRESENT LEGAL STATUS

Price maintenance was practiced for many years previous to the passage of the Sherman Act in 1890. Up to that time a contract entered into between a manufacturer and a wholesaler in regard to an agreed price between them and between the wholesaler and retailer was legal. Even up to 1911 it had been taken for granted that such contracts did not come under the Sherman Act, such contracts being freely entered into. On April 3 of this year, however, came the decision of the United States Supreme Court in Dr. Miles Medical Company vs. John D. Park & Sons Company.(1) In deciding this case the court said that a contract entered into with a distributor whereby the price of the article to the consumer was set by them was illegal because in restraint of trade and in violation of the anti trust law of 1890. This decision was a new interpretation of this law and reversed the policy of a century. To show the difference of opinion that existed then and does today, such decision of the Court was arrived at by a five to four vote. Thus the law as interpreted today is the opinion of one

(1) 220 U.S., 373-413

Justice.

To show clearly the present status of the law it is necessary to consider briefly three other cases. In United States vs. Colgate & Company (1) the Supreme Court ruled that whereas in Dr. Miles Medical Company vs. Park, there had been written contracts between the company and distributors there were no such contracts here. Colgate & Company acted as a lone individual and as such refused to sell in the future to any who did not maintain a specified resale price or not to sell at all, either of which it had a legal right to do. In Dr. Miles Medical Company vs. Park, and in Federal Trade Commission vs. Beech-Nut Packing Company (2) (to be discussed in a later section) these companies had agreed with wholesalers either by written contracts (in the former) or by tacit understandings (in the later) that they would not sell to other wholesalers or to retailers who would not agree with them to maintain a certain price while Colgate & Company acted alone as an individual would do.

The question of maintained prices on patented articles was disposed of in Straus vs. Victor Talking Machine Company. (3) In a suit brought by Macy & Company

(1) 250 U.S., 300-308
(2) 257 U.S., 441-459
(3) 250 U.S., 400-308

against the Victor Talking Machine Company, the Supreme Court on April 8, 1917, decided that the monopoly of use accorded by the patent law could not be made a means of controlling the price of the patented article after it had been sold and paid for. By this decision maintenance of prices on a patented article was illegal.

In United States vs. General Electric Company (1) the court decided that in the sale of their lamps, which were patented articles, distributed by them through 21,000 dealers acting as agents and maintaining prices set by the General Electric Company, it was not acting illegaly. It was a clear case of agency in which possession but not title had passed. When the sale was made to the customer it was really made by the General Electric Company itself, but through its agent.

The legal aspect of price maintenance may be summed up thus: If there is a written contract between manufacturer and distributor or a tacit understanding, maintained prices are illegal. If, however, the manufacturer acts alone and every distributor acts alone, they are not illegal (such a method has proven ineffectual.) Articles may pass from manufacturer to consumer

(1) 272 U. S., 71 Law Edit. 362-373

through agents who may legally maintain prices. A patent does not give the manufacturer the right to maintain prices. Thus it may be seen that on the whole the Supreme Court is of the opinion that under all methods now usually used in distribution, except consignments, price maintenence is illegal. This it is believed is sufficient to justify the belief that it is possible that no further price maintenence legislation will be passed- at least in the near future.

TWO CONFLICTING VIEWS ON THE SUBJECT

In spite of the stand taken by the courts a great body of business men and some legislators contend that a contract between a manufactuere and his distributors is not in restraint of trade. They do not believe that this law of 1890 was intended to apply to sales of individual manufactureres to individual middlemen. Others believe that the Sherman Act was sound as being a means of correcting conditions which prevailed at that time. First pooling agreements and later the trustee device or "trust" were used as a means of creating monopolies by restraining competition. The Standard Oil Company, The American Tobacco Company, and other trusts

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were finally dissolved under this law. These people contend that today there is a tendency to the development of retail distribution monopolies in the form of chain stores, department stores and mail order houses. They argue that with the development of retail distribution monopolies competition is being destroyed and that since competition was the main consideration in the Sherman Act, and subsequently by the Clayton and Federal Trade Commission Acts, that the purpose of these acts is being defeated by the growth of chain stores, department stores, and mail order houses.

While this class argues that competition is being destroyed by these types of distributors, when the arguments of the opposition are pointed out, it will be seen to be highly debatable. They also argue that price maintenance as now proposed is not in restraint of trade. Briefly the argument is as follows: If an individual manufacturer sets a resale price on his product he does it on that product individually and is still in competition with all other manufacturers of that class of product. A tooth paste may be used as an illustration. If the price to the consumer is set at fifty cents per tube and such a price is too high for the majority of consumers, his sales will suffer. If on the other hand

the price is set so low that consumers will realize that they are getting unusual value,many buyers will result., the law of supply and demand will then operate, and many competitors will come in. The consumer is not effected adversely, therefore, because he is never restricted in his choice. If a fifty cent tooth paste is too expensive for him, he will always have the choice of cheaper ones. The above briefly states the belief of that class to which the manufacturer of trade marked, advertised goods and the majority of independent retailers belong.

There is another class to which the owners of the other types of retail distributing agencies belong as well as the investing public, and the great majority, many believe, of the consuming public. This class believes that the chain store method of distribution is the more economical. They believe that competition is not destroyed but rather that it is made more intense. Where it was originally confined to the independent retailers and, at present, between independent retailers and the types of retailers here being discussed, eventually it will be between chains themselves----chains of retailers, chains of department stores, and chains of mail order houses. We have them all now. This will be so because it is the way by which distribution costs are

being cut. The one that will be elimated will be the independent retailer and he will be eliminated because of competition. There will still be competition, but he won't be in it. It has been shown that three dollars per day per store is a satisfactory net income for the chain grocery stores. One chain operating 17,000 stores accumulates $16,000,000 per year on this amount or six per cent on an investment of $96,000,000. These figures are indicative of the attractiveness of chain store stocks when it is considered that $3,000 is the average inventory per store for stock and fixtures or a total of only $51,000,000. for the chain. This group argues that there are approximately 2,000,000 retailers in the United States serving a population of 120,000,000. How does maintained prices effect these consumers? The answer to this question will decide whether we will have maintained prices or not. It must not be forgotten that our legislators are in Congress to represent the 122,000,000. not the 2,000,000.

The answer by this group to its opponents may be summed up by a letter from Arthur Brisbane to Harry R. Walker, executive secretary of the Independent Retail Grocers Inc., of Baltimore. It was in answer to a letter from Mr. Walker in which certain statements which Mr.

Brisbane had made in Mr. Heart's Baltimore paper were criticised. Mr. Brisbane's letter is as follows:

"My dear Mr. Walker:

I thank you for your letter of May 23. I shall be very glad to have all information in a matter so important to the public and to many business men. To your interesting "if" I can only reply that "if" the old fashioned grocery store can supply the public as good, as reasonably as the chain store does, the old fashioned store will survive, and "if" not it will not survive. I am aware that there is a great deal in what you say, but the laws of survival are definite. It is not necessary to say that a man "able to buy for 15,000 stores" can, all things being equal, sell things more cheaply and thus get trade. There is no sentiment in the mind of the purchasing public.

Very truly yours,

A. Brisbane.

It would serve no useful purpose to go into the economic question further here. It has been discussed by some of our best authorities on economics. (1)

It remains for us now to consider the nature of the legislation that is being proposed and find out,

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(1) See Taussig F.W. "Price Maintenence," American Economic Review, March and April 1918. Also Tosdal H.R. Ibid. Also "Predatory Price Cutting as Unfair Trade" Harvard Law Review, 1913.

if possible, if we have not sufficient laws not to accomplish the same result, our purpose being to test the adequacy of such legislation to solve our problem.

THE CAPPER-KELLY BILL

On September 26, 1926 the Federal Trade Commission Act was approved.[1] Section 5 provides "Whenever the commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition in commerce and if it shall appear to the commission that a proceeding by it in respect thereof would be in the interest of the public it shall issue and serve upon such person, partnership or corporation a complaint stating its charge in that respect and containing a notice of hearing upon a day and place therein fixed, at least thirty days after the service of said complaint..................................
(4) If upon such hearing the commission shall be of the opinion that the method of competition in question is prohibited by the act, it shall make a written report in which it shall state its findings as to the facts, and it shall order such corporation to desist from using such

(1) Public No. 203- 63rd Congress H.R. 15613 Chapt. 311 Stat. 717

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methods of competition. (5) If the order is not obeyed the commission may apply to the circuit court of appeals of the United States, within any circuit where the method of competition in question was used or where such corporation carries on business for the enforcement of its order. (6) Upon the filing of the application and of the transcript of record, the court shall have jurisdiction of the proceeding, and shall have power to make an order affirming, modifying or setting aside the order of the commission. (7) The findings of the commission as to the facts, if supported by testimony shall be conclusive (10) The judgment and decree of the court shall be final, except that an appeal may be taken to the Supreme Court upon certiorari as provided in section 240 of the Judical Code."

It would seem that sufficient legislation is now on our statute books to handle unfair methods of competition- one of which is price cutting, if such is against the public good in the eyes of the Federal Trade Commission. In Federal Trade Commission vs. Beech-Nut Packing Company, (1) a United States Circuit Court of Appeals had set aside on order of the Federal Trade Commission requiring the Beech-Nut Packing Company from

(1) 257 U.S., 441-459

carrying out a plan of resale of its product. The commission condemned the plan as an unfair method of competition within the meaning of Section 5 of the Federal Trade Commission Act. The case went to the Supreme Court as also provided in the same section. In concluding its opinion this court said "Under the facts established we have no doubt of the authority and power of the Commission to order a discontinuance of practices in trading such as are embodied in the system of the Beech-Nut Company." (The practices resulted in maintaining the prices of Beech-Nut Products."

The question then arises, what are unfair trade practices or unfair methods of competition? Those commonly thought of as such by retailers are (1) Predatory price cutting (2) subsized advertising or bonuses, (3) payment of "P.M.'s" to clerks in certain chain stores to induce customers to buy own brands, (4) sales of "seconds" by chain and department stores on the representation that the seconds are articles of the best quality and value, (5) combination sales, (6) sales by the same chain in the same city, on the same day, of the same articles at different prices in different sections of the city.

From the following statement made by the

Supreme Court in Federal Trade Commission vs. Beech-Nut Packing Company, "It is for the courts, not the Commission, ultimately to determine as a matter of law what they include," it is clear that the definition must rest with the courts. The court also said in this case (unfair methods of competition) "are clearly inapplicable to practices never heretofore regarded as......against public policy because of the dangerous tendency to hinder competition or create monopoly." Conversely this clearly indicates that practices resulting in a tendency to hinder competition are clearly within the power of the commission to suppress. Representative Clayton in explanning why the words "if it shall appear to the commission that a proceeding by it in respect thereof would be in the interest of the public" were put in Section 5, as a result of a conference, said it was to prevent the Commission from becoming a clearing house for the settlement of everyday quarrels of competitors which did not concern the public and which should be settled by the courts.(1) The foregoing may be summed up by saying that a practice must seem unfair to the Federal Trade Commission first and that it will not be considered if the public good is not involved. Whether it will finally be

(1) Cong. Record Sept.10,1914 p.14930 Quoted here from "The Trust Problem in the U.States" Elliot Jones p.353

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regarded as an unfair practice must be determined by the courts and that practices tending to hinder competition are clearly within the acts as has been proven from the case cited.

In spite of the legislation above referred to "several bills providing for resale price maintenance have been introduced in Congress since 1920, including the Merritt bill, Kelly bill, Wyant bill, and the Williams bill." (1) The latest bill introduced was the Kelly Bill, on the opening day of the seventieth Congress, although a questionnaire of the Federal Trade Commission inquiring into the whole question of resale price maintenence from an economic point of view was in the hands of every manufacturer, wholesaler and retailer in the country at the time.

To get an idea of the nature of the legislation that is now being asked it will be necessary to consider this Kelly bill (2) briefly. It is "A bill to protect trademark owners, distributors, and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguishing trade mark, brand or name." The first section provides "that no contract relating to the sale

(1) Resolution of the Federal Trade Commission July 25,1927
(2) H.R. 11-S1418

or resale of a commodity which bears the trade mark, brand or name of the producer or owner of such commodity, and which is in open and fair competition with commodities of the same general class produced by others, shall be deemed to be unlawful, as against the public policy of the United States or in restraint of interstate or foreign commerce, or in violation of any statute of the United States, by reason of any agreement contained in such contract--that the vendee will not resell such commodity except at the price stipulated by the vendor; and or that the vendee will require any dealer to whom he may resell such commodity to agree that he will not in turn resell except at a price stipulated by such vendor or by such vendee." Section 2 of the act names the exceptions to the rule,as for instance, when a retailer is going out of business at which time he may sell for less than the agreed.price.

The framers of this bill and those who are advocating its passage believe that the subject of resale price maintenence is not adequately covered in the Federal Trade Commission Act and wish to have a specific law. They claim "with such a law it would be possible for manufacturers of trademarked articles to keep their products out of the hands of predatory price cutters." They further argue "that under the anti trust laws as

they exist today the manufacturer of a nationally advertised trade marked article cannot make a contract for the maintenance of the resale price of his product." (1)

It should be noted that the act (1) only applies to trademarked articles, (2) it is optional, not mandatory, with manufacturers of such articles that they set and insist upon a resale price and (3) is intended to keep such articles out of the hands of predatory price cutters (the chains) unless they contract to adhere to a resale price. "It simply seeks to make such contracts lawful." (2)

Briefly such are the laws that we now have bearing on the subject and the interpretation that has been given to them by the Supreme Court. Likewise the nature of specific new legislation asked for is given. The broadness of the subject is further indicated by the nature of the questions asked in the questionnaire of the Federal Trade Commission. No way at the present time seems to be open to the independent retailer to compel his larger competitors to sell advertised merchandise at the full suggested retail price. The general opinion of the independent retailer as expressed by the

(1) Quoted material is from a direct quotation of Eugene C. Brockmeyer, National Counsel for the N.A.R.D. interpreting the intent of the law.
(2) From a speech by Rep. Kelly at the N.A.R.D. Convention, Kansas City, Sept. 23, 1927

various national and state associations is that if the specific legislation asked for was passed they would be able as a result to meet this competition.

CONCLUSION

This chapter may be concluded by discussing the points concerning price maintenance that this study seeks to bring out:

(1) The Doubt as to the Passage, in the Near Future, at Least, of Any such Legislation. As has been shown several bills have been before the legislature but none have passed. A great many legislators have formed an opinion based mainly upon the idea that large scale distribution results in a benefit to the public and therefore their activities should not be curbed. The effect on manufacturers and distributors has been given little consideration, as the effect on the public seemed to them to be the important consideration. The opinion of the Supreme Court seems to be decidedly against price maintenance in any form, except as shown, believing it restricts competition and therefore contrary to the Sherman Act. The opinion of the members of the Federal Trade Commission is divided on the subject. A referendum to the members of the United States Chamber of

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Commerce in 1926 showed only fifty four per cent in favor of such legislation. The opinion of this body is therefore equally divided. It is believed by many and conclusively proven to many of this number, that the way is now open to prevent predatory price cutting through the Federal Trade Commission. Its questionnaire seeks to determine the extent to which price cutting hurts the manufacturer as well as the distributors. It also seeks to determine its effects on prices as a whole and its part in the growth of the chain store movement. It all goes back to a consideration of the question from an economic standpoint. If the commission brings to light any new facts these may effect its recommendation to the legislature. Both sides seem equally confident, however, that no new economic conclusions will be arrived at; that statistics gathered will only prove what is already known. Our first conclusion is, therefore, that it will be some time before further legislation is passed.

(2) The Inadequacy of Any Proposed Legislation to Meet The Competition of Chain Stores. As has been shown, what those responsible for the proposed legislation claim that it will be able to do, is to give the manufacturer the right to set a resale price and to with-

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hold his goods from any who do not enter into a contract to respect this resale price. There is no question but that the legislation is aimed at chain stores and department stores; its authors have repeatedly said so. If it accomplishes its stated purpose wherein is the problem solved or to what extent has their competition been met? One fact stands out prominently, and in the mind of the author settles the question of adequacy. The dual capacity in which the chain store serves, has not been considered in any of the arguments the author has seen, the fact that it acts as its own jobber, having been lost sight of. In transferring goods from its own warehouse to its own store it is not reselling them, it is merely transferring them from its own warehouse to its own stores, or transferring them from itself as jobber to itself as retailer. In the case of the department store there is not even this transfer. Admitting that they could not afford to throw out advertised goods but must sell them at full retail price, it can be seen that the goods have reached their retail stores at the manufactureres best wholesale price minus cost of warehousing. It has been shown that the service wholesalers cost is fifteen per cent and the chain stores warehousing expense seven per cent. The goods

therefore reach the chain and department store at a saving of eight per cent of their cost. In selling them at full price they still have this advantage of eight per cent over the independent retailer. Where in is provision made for this situation in the legislation we have been studying? The economic advantage of this method of distribution has not yet been met. The way is now open to the chain to cut prices on unadvertised goods since its profits are assured to it on advertised goods. It has been continually argued that advertised goods are better quality goods but has it been proven? Is it necessarily so? The growth of the chain store proves that the consumers first interest is in price in direct proportion to its growth, as they do not now pretend to give convenience or service. There can be no question but what the chain store will be able to offer quality merchandise at a price which the independent retailer will be no more able to offer then than he is now for the same economic reason, his small purchasing power.

A way will be shown in the following chapter by which the independent can secure his goods at a first cost equal to the chains or department stores. It is by means of cooperative retail buying. TO grow equally with the chain stores, however, the independents ability

to finance its own warehouse must be equal to that of the chain. If this legislation passes will it be able to do so?

The outstanding success in the cooperative jobbing field has been the so called "mutual" jobber. Its capital is supplied in part by the investing public. Such legislation would be suicidal to it because unlike the chain store it would not be able to sell to member druggists at a discount of eight per cent as it does now because it is an entity, seperate from the members. It would be reselling its goods at a discount which the new law would prohibit. Druggists would be permitted to buy cooperatively only to the extent of the money they themselves put in, so that the earning of the jobbing end of their business could be returned to them as dividends and not as discount on purchases as is now the custom.

This study has tried to develop the fact that price maintenance legislation is inadequate as a solution of chain and department store competition in that it cannot solve the problem presented by the enormous purchasing power of chain and department stores. In the second place this equality of purchasing power is absolutely necessary in any complete solution, and since it

deprives the independent of the only way that has so far been evolved it cannot be considered. Lastly, it has been shown how uncertain the passage of any such legislation is and in view of the rapid growth of the chain store movement, it is suicidal for the independent to put his hopes upon it.

CHAPTER IV

COOPERATIVE RETAIL BUYING

Following the Civil War, as we have seen, distribution became of a wide scale due to increased production. Competition became keen between manufacturers because of this increase in production and the ease with which it could be distributed due to the rapidly expanding railraods. The natural result was increased competition.between retailers. It was at this time also that magazine advertising began. It increased gradually until 1890 when it began to expand rapidly up to the point it has reached today. Trade marks were developed at this time and this advertising was centered around trade marked articles.

This keen competition and the advertised article resulted in price cutting. Although evidences of price cutting date back to 1880, it really began to be prevalent to any great extent about 1900. The first price cutting was of that type commonly called predatory. Under this type trade marked articles, the regular retail price,

of which was known to the consumer, were cut in price. The consumer seeing the actual saving he was making on such articles bought them rapidly. Trade was thereby attracted to the cut price store and the decreased profit or loss on the advertised goods was made upon non branded goods.

In those days druggists bought wholly from the wholesaler as his buying power was so small it did not warrant buying direct. After cut prices, however, his volume increased to such an extent that he could now buy his fastest selling items from the manufacturer. The manufacturer in his eagerness for this new market was willing to sell direct and grant the retailer quantity discounts, placing him on a buying par with the wholesaler on those items. The reduced prices which he thus received enabled him to carry out his cut price policy.

The second type of price cutting resulted from competition which has been made possible by the newer methods of distribution. These have been a result as well as the cause of price cutting. Because of cut prices they have been able to expand as rapidly as they have and because of their enormous purchasing power, economy in operation and effifiency in selling, they have been able to cut prices. These changing methods of distribution,

many people believe, have permanently introduced the consuming public to lower prices. Believing that these newer distributors were permanent some of the more far-sighted of the independents seized upon cooperative buying as a means of meeting their competition.

HISTORY AND EXTENT IN THE DRUG BUSINESS

The first cooperative buying done by any group of druggists was in New York in 1887 from the New York Consolidated Drug Company in Manhattan. This was a buying club and has continued to grow until in 1927 its sales were $1,000,000. The following year the Philadelphia Wholesale Drug Company was organized and like the New York Company has continued to grow until today it is the largest strictly cooperative drug house in the United States, doing a business of $7,500,000. in 1927 and serving 1,600 members.

These two companies are the outstanding examples of a strictly cooperative buying association- an incorporated organization of retailers acting as a wholesaler for its members and warehousing the goods bought in its own name. From this type has developed another usually called "semi-cooperative" or "mutual."

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It differs from the former in that it is privately owned but a minority of its stock is held by retailers, such stock constituting their membership or buying privilege and being usually the amount of one weeks purchases. This type has several important strong points, the most important being its ability to expand because of its ability, the same as any other corporation, to attract the capital of investors, while the former type is limited to the amount of capital its own members can advance. No distinction is usually made between these two types, however, the group as a whole being referred to as cooperative jobbers.

This mutual type has had an unusual growth. In 1898 the Calvert Drug Company of Baltimore was founded by fifteen druggists. It has grown steadily until in 1926 its sales reached $1,350,000. for that year. In 1902 the druggists of Buffalo organized the Ellicot Drug Company. This company has been an outstanding success in the cooperative field doing a business in 1926 of over $2,000,000 on a merchandise inventory of $200,000 at an expense of less than 6 per cent. In 1909 the Mutual Drug Company was organized by three hundred druggists of Cleveland. In 1911 a branch was opened in Columbus, followed with branches in Chicago in 1912, Detroit in 1916, Kansas City in 1920, Pittsburg in 1926, and Indianapolis

in 1927. In 1915 it purchased the large pharmacentical plant of Burroughs Bros. in Baltimore. In 1926 the sales of the Mutual Drug Company were over $18,000,000. The St. Louis Wholesale Drug Company was founded in 1916 and had sales in 1926 of $2,250,000. The Los Angeles Drug Company founded only ten year ago had sales in 1927 of $2,000,000. Several of these types of wholesalers are doing a business of over $1,000,000. yearly; this number including the Union Wholesale Drug Company, and the United Consumers, Inc., both of Boston.

The extent of cooperative wholesaling in the drug trade at the close of 1927 may be summed up as follows: Twenty six cooperative wholesalers were supplying 15,000 independent druggists with $50,000,000 worth of merchandise In other words, thirty per cent of the independent retail druggists were buying about twelve and one half per cent of all drug store merchandise sold through wholesalers. (1)

COOPERATIVE BUYING AMONG DEPARTMENT STORES

The idea of substituing a cooperative jobber for the service wholesaler who has served the drug trade for so many years seems a radical one and for this reason

(1) Compiled from statistics appearing in various drug publications, principally the Pharmacentical Era.

a great many druggist are reluctant to entertain the idea. When it can be shown conclusively that the druggist can save money it is hard to reason out why so many druggists, who are financially able, are not taking advantage of this savings. Should the fact that the idea is radical stop them?

In the department store field while the idea is of compartively recent origin, there are already many chains. More recent is the fact that the two largest mail order houses are establishing a chain of department stores. Both Sears, Roebuck & Company and Montgomery Ward and Company have stated in their advertisements that they each intend eventually to have 1,500 such stores. The position that the independent department store is now in is not unlike that of the independent retail druggist. While the independent department store's buying power in comparison to that of the independent druggist is enormous, it is small in comparison to some of the chain department stores. To meet the situation they have resorted to co-operative buying in some form. It does not necessarily follow that because department stores are doing it that drug stores should do it also. The fact that they are doing it, however, is significant.

After all is the idea so radical? "Necessity

is the mother of invention." Necessity has always been and always will be the impulse behind any new or unusual idea. Like the druggist the department store has seen the necessity of getting its goods at the lowest possible first cost. Many of the ideas in modern merchandising are radical. The chain store itself was considered a radical departure in merchandising twenty years ago. Although young it is not a difficult matter to get some of our best minds to admit that it is here to stay. One writer (1) says: "There is no department in business today in which changes are so violent, rapid and revolutionary as among the 2,000,000 retailers who supply Americans with the necessities of life............ The retail butcher, the cigar storeman, the druggist, are all being hit by a storm in the retail world." An idea which has grown to the point where cooperative retail drug buying now is, can no longer be called radical.

COOPERATIVE STRENGHT

The first and most important element of strength in cooperative buying for the benefit of the retail druggist is the fact that he can get his merchan-

(1) W.G. Shepard, "Colliers," September 1926, p.308

dise from the cooperative wholesaler at a lower cost. Bulletin 50 issued by the Harvard Bureau of Business Research gives the average total expense of the service wholesaler in 1924 as 15.8 per cent and of cooperative association druggists in 1926 as 6.9 per cent of gross sales.(1) A saving of 8.9 per cent of gross sales is shown which saving has been made possible by the ability of the cooperative wholesaler to reduce the cost of performing some of the wholesale functions.

Recently fifteen service wholesalers located throughout the United States consolidated. These firms did a combined business in 1927 of $74,950,250 or 18.7 per cent of all business done by drug wholesalers that year. One of the purposes of the consolidation as explained in the circular of the bankers(2) offering the stock of the new holding company, is the economies in operation of the several businesses which can be effected. They list as the most important of these the following:

I. A reduction in the cost of buying by employing a smaller central buying organization or association. The increased buying power will permit purchases at lower prices because of quantity

(1) These figures while not for the same years serve to show that the expense of the cooperative wholesaler is lower. (2) Goldman, Sacks, & Co. The Bridgeport Trust Co. Sept. 8, 1928

discounts and the ability to buy from primary sources.

II. Combining experimental, testing and manufacturing labratories.

III. Selling can be made more efficient and economical through coordination of sales policies.

IV. Centralized control of finances, insurance, advertising and inventories.

Here are fifteen concerns doing 18.7 per cent of the entire wholesale drug business at an expense of 15 per cent of sales. THe Mutual Drug Company, on the other hand, a cooperative wholesaler, operating seven branches and doing a business of $18,000,000. in 1926 has paid eight per cent dividends yearly since 1909 and is able to operate at an expense of seven per cent.(1) In the past the druggists of the United States have supported three hundred old line jobbers who are doing business at an expense of fifteen per cent. These jobbers themselves know that it is possible to operate for less. This is proven sufficiently by the consolidation of fifteen of their number and the purposes of such consolidation as stated by they themselves.

(1) Statistics compiled from statements made by its president Mr. Roosa, appearing in various editions of the Pharmacentical Era.

One illustration will serve to illustrate the possibility of further savings and to illustrate the difference in the expense figures of the two types of wholesalers. Every service wholesaler still employs outside salesmen which increases their selling expense, while the catalogue is practically the only salesman of the cooperative. The average wholesaler stocks 50,000 items. The time that the salesman can spend in any one store makes it impossible to sell anything except the good will of the house for which he works. (1) This is necessary because of competition between wholesalers but it is one of the unnecessary expenses for which the retailer must pay.

To further verify the fact that there is a saving to the retail druggist through cooperative buying, an analysis was made of the catalogue of one of these concerns. (2) It disclosed the following facts: This catalogue lists 2,532 of the fastest selling items in two of the largest departments of the average drug store - patent medicines and toilet articles, and a lesser number of items used in the drug department. On 1,887 of these items this concern allowed a discount of five and five per cent; on the remaining 645 items it allowed a discount

(1) While this is the opinion of many one illustration will serve to substantiate the fact that it is held. T.W. McNeice Harvard B. L. R. Oct. 1928 p. 22 (2) U. Consumers Inc. 1928

of five per cent. The prices listed were identical with those of a competing service wholesaler showing that the saving was real. The prices of the cooperative are for fractional parts of a dozen. To get comparable prices from the service wholesaler the dealer must buy in full dozens. The catalogue showed than that the dealer could buy in QUANTITIES THAT SUITED HIS NEEDS at these savings. This cooperative wholesaler also handles the several thousand products of Burroughs Brothers, the manufacturing unit of the Mutual Drug Company, and offers these items at an equal saving to those listed in their own catalogue.

An inspection of the figures of the Walgreen chain of drug stores,(1) the second largest in the United States, will show the rate at which these stores are increasing and the need of the saving that can be effected through cooperative retail buying.

Year	No. of Stores	Av. Sales per store	Total Sales	Per Centage net profit	total net profit
1924	50	$111,700	$5,586,448	7.8	$439,110
1926	96	140,500.	13,494,878	7.4	1006,206
1927	135	148,000	20,000,000	6.9	1394,742
1928	189				

(1) Taken from an announcement of Hallgarten & Company Bankers issued January 1928.

These figures show several facts first of which is the rapidity of growth of this chain--from 50 to 189 stores in less than four years. They also show that the net profit has averaged seven per cent of their sales. Since they are buying their goods at jobbers discount (fifteen per cent) it can be seen that they have been able to sell their goods at eight per cent less than the druggist can buy his and still make a net profit of seven per cent. It has been shown that the warehouse expense of the chain stores is seven per cent. The importance then of the retailer buying to save eight per cent as, it is possible to do through cooperative buying, becomes apparent.

A second point of competitive strength in the cooperative wholesaler is the aid which he can render to the retail druggist member, especially in the matter of collective advertising. It has been shown to what extent the department stores advertise. A look at any of the city daily news papers will show the extent to which chain stores are now advertising. It is not uncommon in the Boston papers to see an entire page devoted to a Liggett's advertisement. During Christmas week practically two and one half pages were devoted daily in several of the Boston papers to advertisements

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of the chain grocery stores. It is our purpose in this chapter only to point out the points of strength of the cooperative idea stressing the point of the savings on purchases. In the following chapter, the other ways in which the principle of cooperation can be applied to the various activities of the drug store, as a means of solving our problem will be developed.

COOPERATIVE WEAKNESS

It has always been pointed out that the cooperative idea had certain inherent weaknesses which it would be impossible to overcome. I know of no better way of proving the truth of falsity of such an opinion than to refer to the success that has been obtained by both the service and cooperative wholesaler. Figures are availabe to show the success of the largest service wholesaling unit in the United States (1) which does about nineteen per cent of the total wholesale business.

Year Ended Dec. 31	Net Sales	Combined Net Profits
1925	$71,347,330	$2,669,122
1926	74,160,859	2,746,168
1927	74,950,250	2,770,036
Four months ended Apr.30 1928	25,950,073	1,136,453

(1). McKesson & Robbins, Inc. Figures certified by Price Waterhouse & Co. are taken from Bulletin issued by Goldman Sachs & Co. Bankers, September 1928

With these figures before us we will consider the weakness usually considered the greatest and most fundemental" the relative ineffectiveness of the management as compaired with that of the management which derives its incentive from the hope of profits."

The best way that is known to consider the effectiveness of management is to consider the question of "turnover." It is a well established fact in business, which needs no elaboration here, that the interest on investment is increased as the turnover is increased. The figures given in the Balance Sheet as of April 30, 1928 for inventory are $14,815,254. Applying the commonly accepted figure of 82 per cent to the sales figure of 1927 we get a cost of sales figure of $61,459,205. We may now compute the rate of turnover figure and find it to be 4.1 times, which is slightly better than the figure of four times usually given to service wholesalers.

Figures are not available in the same form for the largest cooperative wholesaler but the relative efficiency of the two may be seen from the following figures:[(1)] Sales $18,000,000. Profits $1,500,000. In addition it has paid dividends of 8% for seventeen

(1) Taken from Statements of President Roosa, Mutual Drug Company in Pharmacentical Era, February, 1928

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consecutive years. Comparable figures are available in the case of the Ellicott Drug Company of Buffalo, whose sales were $3,000,000. Inventory $200,00. and expense 6%. These figures would indicate a stockturnover of about 9 times. The above figures are sufficiently accurate to compare the relative efficiency of the two types of wholesalers. It would seem that the first weakness is far from being proved.

The other weaknesses usually mentioned are (1) "the control of expense leaks is hard to obtain under hired management and (2) "loyalty to the cooperative idea is difficult to maintain." As in the former case no better way seems open to answer the first weakness than again point to the success of cooperative wholesaling. If the cooperative wholesalers have been conspicuously successful in competition with the service wholesalers, it must follow that they have been at least as successful as the later in this respect.

Dificulty in maintaining loyalty to the cooperative idea must depend on the ability of the cooperative wholesaler to continue to save money on the purchases of its members. It has been explained that cooperative wholesalers were of two types, one of which was the so called "mutual." It is called mutual because the success

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of the wholesaler depends upon the retail member and competition has brought the retailer to a point where his success is dependent upon this type of wholesaler.

So long as the cooperative wholesaler continues to save the retailer there need be little worry about the later remaining loyal, because no other means has yet been found, whereby he can save an equal amount. If the retailer gives up this wholesaler to whom will he turn to effect an equal saving? As the retailer is becoming more dependent daily this question of maintaining loyalty becomes less important. One of the points which this study attempts to bring out is the fact that the retailer can not rely on legislation to save him, he must meet his competition. To do this he must buy his merchandise more cheaply. The only way so far proposed is cooperative buying and loyalty to the cooperative wholesaler must necessarily follow.

CONCLUSION

The rate at which the competition with which this study deals is growing, shows that the people appreciate the chain's aggressive methods of merchandising and are taking advantage of the savings they are able to give. This growth also shows a decidedly friendly feeling

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on the part of the manufacturer for this method of distribution. It would seem after the discussion of price maintenance legislation that the manufacturer of advertised trademarked goods was not in favor of them, but preferred to market his goods through the independent at full retail prices. The manufacturer's wants and his actions do not tie well together. It is those who favor this legislation who are continually saying the manufacturer sells to the chains and department stores at a price LESS than the wholesaler buys, because they give to the chains secretly free goods (which is a further discount) for pushing their goods, and also bear part of the chains advertising expense (which is another form of discount) for including their goods in such advertisements. In the grocery business, 38 per cent of the total business is now in the hands of chains, only 50 per cent being in the hands of independents, the remainder being in the hands of miscellaneous dealers.(1) The same thing is true in the drug business, but to a lesser extent. These chain accounts are less expensive for the manufacturer to handle in that they are fewer in numbers, cost of distributing to them being lowered, and they are less expensive to

(1). Wilford L. White,"Cooperative Retail Buying in the Drug and Grocery Trades" Harvard Business Review,October 1928.

carry on their books for the same reason of numbers and because their credit is the best. How can the manufacturer be otherwise than friendly to them?

Consumer and manufacturer then are friendly to the chain and department store. Their success is due in a large part to the economic advantage they have in increased buying power which has been shown to be a net of eight per cent. The independent cannot compete with the chain until he first increases his buying power to that of the chain.The only method open to him is co-operative retail buying, which plan has been shown to be practical in that it is only the method used by the chains themselves. It has been proven conspicuously successful also, and has now been in operation long enough to have proven its worth. The retailer must buy cooperatively to meet chain and department store competition.

CHAPTER V

ELIMINATION OF UNNECESSARY COSTS

Julius Klein, Director of the Bureau of Foreign and Domestic Commerce, says: (1) "Most of the experiments " in distribution that have been or are being carried out in this country consist in attempts to eliminate one or more so called middleman, such as the jobber, the wholesaler, or the retailer. Well known examples are chain stores, mail order houses.................... cooperative wholesale buying by retailers, etc. While some of these attempts have materially contributed toward the advancement of merchandising it is still conceivable that the answer to many problems lies not in the elimination of middlemen, but rather in the elimination of unnecessary costs in the performance of both the wholesale and retail functions." The writer has found this statement of Mr. Klein particularly true in the retail drug trade. No complete and comphrensive plan for the independent retailer whereby he can meet the competition of his large competitors has yet been

(1) Foreword to Distribution Cost Studies-No 3 issued by United States Department of Commerce, 1928

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suggested. Even as between the two leading drug trade publications, we find them each advocating and supporting one means only as a solution. The one has consistently advocated price maintenance legislation, while the other has advocated cooperative retail buying.

This study attempts to show that the attempts thus far made while having materially contributed to the advancement of retailing, are not all that is necessary. Cooperative retail buying by druggists as a solution- but only so far as to enable the independent to buy his merchandise at the same first cost as the chain--is an example of the case in point. Such an attempt is not inconsistent with other attempts as suggested in the latter half of Mr. Klein's statement. The study would further show that attempts must be made to eliminate unnecessary costs and tries to show wherein it is possible to lower them.. This is absolutely necessary because the chain costs are lower than those of the other types of retailers and they sell more goods per dollar invested than any other type of retailer. The independent's complete program must be "to buy right to sell right." Selling right is only possible when unnecessary costs have been eliminated after the goods have been bought right.

TURNOVER

Our first task is to see wherein turnover is connected with the subject of elimination of unnecessary costs. The commonly accepted definition of turnover is "The number of times a complete stock of merchandise is sold per year."(1) This is found by dividing the cost of sales by the average inventory, at cost or market price, whichever is lower. This shows that both sales and purchases are involved and, as will be shown presently, many other costs. It is now necessary to show that the question of turnover is involved in this study.

Statistics shows that the rate of turnover in the different types of stores varies. The turnover of the independent retail drug store varies from 2.6 times to 4 times per year.(2) The rate of stock turn in the case of chain drug stores varies from seven(3) to ten times. (See Table VI Page 86) These various figures show that the

TABLE VI- THE ANNUAL TURNOVER OF STOCK IN LIGGETT'S STORES

Type of Goods	Stock Turnover	Type of Goods	Stock Turnover
Soda Water	52	Gen, merchandise	8
Candy	20	Total Store	10
Cigars	15		

(1) E.E. Lincoln, Business Finance, p 646
(2) Pharmacentical Era, October, 1927 p. 16 (2.6 times,)
E.E.Lincoln, Business Finance p.650, 4 times
(3). Pharmacentical Era, October 1927 p.16

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the chain stores turn their inventories from two to three times more per year than the independent. The operating expenses of the independent druggist are 28 per cent whereas those of the drug chain are 25 per cent;(1) the net profits of the former are 7% and those of the latter 12½ per cent.

Profits are the results of sales, after buying and expense have been considered, and are dependent upon turnover as shown by the figures above. Since the independent, to compete with chain and department stores, must consider his profits, consequently he must consider the question of turnover since his profits are dependent upon it.

TURNOVER AS A BUYING PROBLEM

Turnover may be hastened in two ways, either by increasing the sales of descreasing the purchases. Turnover is, therefore, a selling problem as well as a buying problem. It will be considered only from a buying standpoint at this time.

An investigation by the United States Department of Commerce, brought out the fact that "Merchandise which sleeps on the shelves gradually accumulates costs...

(1) Pharmacentical Era, October 1927 p.16

storage, interest, insurance, taxes, shrinkage, depreciation, and obsolescence. Furthermore, it ties up a retailer's capital and depreciates his credit, making it difficult or impossible for him to take advantage of cash discounts.................... .... If the accumulated costs can not be passed a long to the consumer, the retailer may find it impossible to remain in business. (1)" This particular study showed that a stock control system installed by a particular merchant reduced the number of items carried by 32 per cent; reduced the value of his inventory by 8 per cent; increased his volume of sales 20 per cent; increased his dollar profits 50 per cent.

The above statement shows clearly that turnover is a question of buying. While it is true that if merchandise was sold it "would not sleep on the shelves" it is also true that if it was bought in the smallest quantities necessary to meet the sales requirements, it could not "sleep" there. The effects of an inventory which is too large may be illustrated by two competing merchants with the same sales volume operating on inventories of $5,000 and $10,000. The former eliminates the interest, insurance, taxes, and depreciation on $5,000, a saving which could be shown in actual dollars and cents.

(1) "Retail Profits Through Stock Control", C.E. Bittner. issued by the United States Department of Commerce, 1928

He receives further benefits also which although as real, can not be shown in actual figures---savings by smaller losses due to shrinkage, spoilage and obsolescence.

Many druggists realize the importance of turnover, but are seriously handicapped in their buying. They have been compelled by circumstance to carry a larger inventory than they know they should carry. Their selling price is set by their competitors, the chains and department stores, and is so low that it sometimes does not cover the independent's merchandise cost, yet, as was shown in the case of the Walgreen Company, the chains can make seven per cent profit and in some cases as high as 12½ per cent. Realizing the importance of first cost, the druggist has bought in larger quantities than he could sell with the result that large inventories have accumulated with the resulting evils and costs which we have just shown.

The question then arises how can the druggist solve this problem of turnover from the standpoint of buying. The answer which this study would give it co-operative retail buying and simplification of stocks which we will consider in this order.

In the previous chapter, the catalogue of the United Consumers, Inc. was examined, the savings there

shown being considered typical of the savings offered by cooperative wholesalers generally. It showed a list of 2,532 of the druggist's fastest selling items, on 1,887 of which the druggist could realize a saving of 5 and 5 per cent and of 5 per cent on the remaining 645 items. In addition to this they offered like savings on many other items not shown in the catalogue, but which could be ascertained by an inspection of the catalogue of the manufacturer---an illustration is the catalogue of Burrough's Bros., the manufacturing unit of the Mutual Drug Company, the country's largest cooperative wholesaler. The use made of these figures at that time was to show by an actual illustration that the druggist could buy at as low a first cost as the chains. We have a different purpose in mind now, but one hardly less important. These prices are for FRACTIONAL PARTS OF A DOZEN, which enables the druggist to overcome his present necessity of quantity buying with its resulting evils.

One of the reasons for the success of the chain stores, is the fact that the managers of the stores need only anticipate their stock wants for a week in advance, and order accordingly from their central warehouses, knowing that this comparitively small supply would come in at the lowest possible prices, and that

their complete stock was only about a week's supply. The same opportunity is now open to the independent through cooperative retail buying. First, he may buy at as low a price as the chain, and second, as has been shown above, he need anticipate his needs on a large part of his stock for only a week in advance and keep his inventory at a low figure as a result.

SIMPLIFICATION OF STOCKS

While it can be seen that the opportunity which is given the druggist to buy in fractional parts of a dozen, is a great help to him in solving his buying problem, it is not a complete solution. It is evident that if his stock of merchandise, which we will say, is ordinarily 200 items, could be cut to 100 items and he could still buy as above, that stock, smaller as it naturally is, could be still cut in halves by this simplification. In its relation to buying then, stock simplification is an aid to further diminishing the inventory. Although it appears all very simple, yet it remained for the chain store to discover its importance and reap the benefits from it. It is only recently that the independent druggist has begun to seriously consider the

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question. Stock simplification is of far greater importance also than its relation to buying as we shall see later.

While there is always the possibility of standardizing or simplifying stocks too closely, with the result that sales may be lost through not having the articles in stock, still simplification is of utmost importance. It must be understood that records of some sort must be available to help the druggist avoid such sale losses, but still enable him to simplify his stock right up to the point where he will lose sales if his stock is simplified further. At such a point his inventory will always be at the lowest figure at which it is advisable for him to keep it. For the first time in the history of the drug industry a critical scientific analysis of all the toilet goods sales of a drug store for a six months period has been made.(1) The results of this study formed the basis of a questionnaire of the Druggist's Research Bureau which is now being sent to all druggists in the United States. This effort on the part of the Bureau is the beginning of a scientific study into the whole question of simplifications of drug store stocks, and its relation to profits. While it is a report of

(1) Special report of Druggists Research Bureau, 101 Maiden Lane, New York City, "Simplification of Drug Store Stocks,"

only one drug store department and of only one store, yet because it was a store where buying is closely done according to present standards, and because the inventory was a comparatively small one, the Bureau has deemed the results arrived at as of such importance that they issued a report immediately for the benefit of all druggists.

The results of this investigation prove the importance of the principle here being discussed. Being the most reliable data of its kind available, the more important facts brought to light are given below as bearing out the argument here being presented. There are three determinants of profits--margin, volume and turnover. Slow-selling items should effect the buying, in that they should determine the amount to be bought, and do result in a large inventory and small turnover. This study involved 434 brands, sizes, and styles of which 5,592 individual sales were made amounting to $1,922.

TABLE VII -VARIATIONS IN MARGIN, VOLUME, AND TURNOVER (1)

Goods	Brands	Bumber of Sales	Av.Amt. of Sales	Stock Turnover	Gross Margin
Hair	95	699	.36	4.4	35 percent
Shaving	37	655	.46	7.6	32 "
Dental	58	1913	.34	9.6	35 "
Facial	132	797	.41	4.2	37 "
Hand	13	164	.36	4.6	33 "
General	99	1394	.25	4.6	36 "
All lines	434	5592	.34	5.4	35 "

(1) The Druggists Research Bureau, op. cit.

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In this study "consistent sellers" were those which were ordered at least three times in a six months period or which sold in quantities of at least three dozen within six months. The following facts were brought out: Of the total of 434 items carried, only 159 or 37 per cent were consistent sellers. From these 159 items or 37 per cent of the complete stock, 4155 individual sales or 74 per cent of the total number of sales were made. These sales averaged 34 cents each and the amount received was $1,394 or 73 per cent of the total receipts.

TABLE VIII- VARIATIONS IN CONSISTENT SELLERS (1)

Goods	Brands	Number of Sales	Av. Am't of Sales	Stock Turnover	Gross Margin
Hair	29	324	.41	8.2	33 percent
Shaving	19	563	.45	11.8	30 " "
Dental	39	1815	.34	12.8	35 " "
Facial	36	405	.36	8.6	33 " "
Hand	3	119	.37	14.	32 " "
General	33	930	.22	9.	32 " "
All lines	159	4156	.34	10.2	34 " "

Returning again to the question of buying, this study reveals the facts, first, that 73 per cent of the total receipts came from the sale of 37 per cent of the stock. The average stock on hand at the end of the period

(1). The Druggists Research Bureau, op. cit.
(2). Ibid.

was made up of 63 per cent slow sellers. This shows the possibilities of increased turnover through the principle of stock simplification which results in a smaller inventory. The average druggist can substantially decrease in the neighborhood of 63 per cent of his stock.

TABLE IX VARIATIONS IN SLOW SELLERS (1)

Goods	Brands	Number of Sales	Ave.Amt. of Sale	Stock Turnover	Gross Margin
Hair	66	345	.31	2.8	36%
Shaving	18	92	.53	2.9	45"
Dental	19	98	.35	2.6	37"
Facial	96	392	.45	2.6	40"
Hand	10	45	.33	1.8	38"
General	66	464	.31	2.4	42"
All lines	275	1436	.37	2.6	40"

It will be noticed that an arbitrary definition has been taken for consistent seller. If from records it can be determined just what goods move three times in six months there need never be more than one each of such goods on hand.

Furthermore, if it can be determined just what goods sell at the rate of three dozen within a period of six months, or one every five days it would be possible to supply all needs by having only two each of such items on hand. This thesis would show that such

(1) Ibid.

TABLE X PROPORTION OF STOCK ON HAND AT END OF PERIOD WHICH WERE SLOW SELLERS

Goods	on hand at end of period
Hair Preparations	70 per cent
Shaving "	50 " "
Dental "	33 " "
Facial "	73 " "
Hand "	77 " "
General "	67 " "
All lines"	63 " "

a procedure is possible by weekly purchases from the cooperative wholesaler at the best possible price as has been shown. This is in striking contrast to the policy which has generally been adopted of buying in full dozens from the jobber or in larger quantities direct from the manufacturer with the resulting large inventory and decreased turnover.

RELATIONSHIP OF TURNOVER TO PROFITS

A rapid turnover of stock is supposed to indicate good financial management. This can be sufficiently illustrated by two cases. Table XI, Page 97 shows that in the case of retail shoe stores total expense decreased from 29.2 per cent to 26.2 per cent and net profit increased from a 4 per cent loss to a 0.3 per cent

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profit. TABLE XII, page 99 shows that in wholesale grocery stores total fixed charges and upkeep decreased from 4.2 per cent to 2.7 per cent and the total expense from 13.2 per cent to 10.4 per cent.

TABLE XI OPERATING EXPENSES IN RETAIL SHOE STORES IN 1921 ACCORDING TO RATE OF STOCK TURN (Net Sales 100 per cent)(1)

Class of Expense	Stock turn less than 1.5 times	1.5 to 1.8 times	1.9- 2.2 times	2.3 times & over
Number of firms	108	97	73	116
Wages of Sales force	11.4%	10.8%	10.7%	9.7%
Total selling	13.8"	13.4"	13.3"	12.5"
Buying management and office salaries	3.7"	3.8"	3.9"	4.0"
Total buying	4.0"	4.2"	4.2"	4.3"
Rent	2.9"	3.0"	2.7"	3.0"
Total interest	4.3"	3.1"	2.9"	2.1"
Total Fixed Charges & Upkeep	9.8"	8.6"	7.9"	7.2"
Total Expense	29.2"	28.3"	27.9"	26.2"
Gross Profit	25.2"	25.3"	27.1"	26.8"
Net Profit-orloss Loss	4.0"	3.0" loss	0.8" loss	0.6" profit

This does not mean, however, that an increase in turnover will of itself lead to higher profits. Profits can only result when the price received is greater than the cost of the goods to which all costs of sales have been added.

(1) Harvard Bureau of Business Reserach Bulletin 31. "Operating Expenses in Retail Shoe Stores in 1921," p.29

It has been shown that turnover is a question of buying in that it may be increased by decreasing the inventory. The size of the inventory naturally depends on how carefully goods have been bought in anticipation of sales. Turnover can also be increased by increasing the volume of sales. This is possible by reducing the selling price to a point where there is no profit or by intensive advertising and expensive methods of selling. Such methods may be so costly as to counterbalance any profits which come from the increased volume.

The definite information needed is such as will show the relationship of profits on slow moving items to that on fast moving ones, or in other words, the relationship of turnover to profits. Definite information may be had by reference to the computed profits per sale on consistent and slow sellers as shown by the table immediately following. In this study the proportionate share of the total carrying costs is apportioned to each sale. This amount varies in proportion to the time it remains in the store before sold or turned over. This carrying cost is found to be 4 per cent of sales for each ten weeks. Applying this figure in the case of the consistent seller we get:

Average sale amounted to .34

Total merchandise cost 60%	.22
Proportionate share of sales expense (20%)	.07
Carrying cost for 5 weeks	.01
Profit	.04

Applying the same figure to the slow seller we get:

Average sale amounted to	.37
Total merchandise cost 60%	.22
Proportionate share of sale expense 20%	.07
Carrying costs for 20 weeks	.03
Profit	.05

TABLE XII OPERATING EXPENSES IN WHOLESALE GROCERY STORES IN 1921 ACCORDING TO RATE OF STOCK TURN (Net Sales 100 per cent) (1)

Class of Expense	Stock turn less then 4 times	4% to 5.9 times	6.0 times & over
Number of firms	65	160	114
Total sales force	2.7%	2.7%	2.4
Total receiving and shipping	1.9"	2.1"	1.9
Total buying and management	2.8"	2.6"	2.5
Total interest	2.4"	1.9"	1.4"
Total fixed charges and upkeep	4.2"	3.4"	2.7
Total expense	13.2"	11.6"	10.4

(1) Harvard Bureau of Business Research, Bulletin 30 Operating Expenses in the Wholesale Grocery Business in 1921 p.28

These figures show that the fast moving itmes are by far the more profitable in spite of the fact that the profit on each item is less. The profit on the consistent seller was .04, but it was turned over 10.2 times for a total profit of .41 on an investment of .22, whereas, while the profit on the slow seller was .05, it was only moved 2.6 times for a total profit of .13 on the same investment, or approximately only one third as much profit. While turnover of itself cannot make profits, there is a definite relationship between them as shown by these figures which is that, comparatively, fast moving items are the more profitable.

TURNOVER AS A SELLING PROBLEM

Turnover bears a relationship to sales. Anything which increases the sales from the same stock of goods increases the rate of stock turn. Stock turn, as has been shown, bears a definite relationship to profits and increased profits are what the independent retailer is after as a means of meeting the competition of chain and department stores. Our problem now is to determine a way by which profits and stock turn may be increased through increased sales.

Statistics show that an increased frequency of stock turn is accompanied by a lower rate of expense. (See Table XII, Page 99) While greater sales with the same expense would not alter the dollar and cents value of the fixed charges such as interest, taxes, insurance, and depreciation, they would reduce the percentage figure. As sales increased, salaries after a time might increase somewhat in dollars, but the salary expense figure in per cent would decrease as the sales increased, thus decreasing further the margin over cost of goods necessary to make a profit. This is the principle which was developed in the preceding section and is the one to which the manufacturer of advertised goods, on which the margin of profit is small, makes his appeal.

The statistics of the Druggists Research Bureau showing that consistent sellers are more profitable than slow sellers applied to a group of items on which there was no radical difference in the profits of the individual items in this group. The chain and department stores, which employ research staffs of their own and work in close relationship with such agencies as the Harvard Bureau of Business Research, while they work upon this principle still push goods upon which there is more profit. The advisability of such a procedure and a consideration

of the means that are at hand for the independent druggist to increase his sales and profits thereby, will conclude the solution here suggested for his problem of competition.

OWN GOODS

While the principle shown in the proceeding section is workable as shown by statistics, yet the independent retail druggist is faced with the problem that each of the types of competition here under discussion has a complete line of merchandise on which a much larger profit is possible than on advertised goods and on which is bent their best sales effort to apply the principle of increased turnover.

The plant of the United Drug Company in Boston is a familiar sight to a great many druggists throughout the country, as Boston has been the convention city on three different occassions of the 8,000 Rexall druggists of the United States. The policy of this company is well known to these druggists and to the drug trade generally. Briefly, their policy is to supply a complete line of drug store merchandise (drugs, pharmacenticals, household remedies, rubber goods, hospital supplies, candy, sigars, soda, syrups, etc.) to all the stores in the Liggett's chains and to the 8,000 Rexall

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agents throughout the country. These goods are "pushed" by every known modern sales method, the idea being to get the largest possible volume of sales and consequently the greatest possible profit, as every article they manufacture is sold to their agencies at a much lower price than similar advertised competing articles.

Percy S. Strauss has said "We have been fighting this type of manufacturers activities (price maintenance legislation) for over twenty-five years, and we have prepared ourselves for the evil day, if that should come, when they would be successful in having this type of legislation put on the books, and WE HAVE IN PRACTICALLY EVERY ONE OF OUR DEPARTMENTS, BRANDS OF OUR OWN MERCHANDISE WHICH WE SELL UNDER OUR OWN BRAND; in fact as Mr. Hudson said, we much prefer to sell merchandise of our own, than merchandise carrying the name of somebody else." (1) An inspection of the catalogues of the two largest mail order houses, shows that, like the chain stores and department store, they too feature merchandise under their own name. They are perfectly frank to state that this merchandise is made by the manufacturers of advertised brands, according to their specifications, which require that the

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(1) Quoted from testimony at a hearing before the House Committee on Interstate and Foreign Commerce, April 22 & 23, 1926.

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articles be equal to the advertised article in every respect. Yet these are sold to the consumer at lower prices. The larger profit to the mail order house on such items can reasonably be assumed.

The independent druggist is confronted with the fact that at least 50% of his sales are of advertised items. (No definite information is available to verify this figure. It was the figure in the one actual case investigated by the Druggist's Research Bureau) the advertised price of which is intended by the manufacturer to allow the retailer a gross profit of 33 1/3 per cent. Practically all of these retail prices are cut, some of them to the extent that the druggist is forced to sell them at a price which does not allow him his 28 per cent cost of doing business, if he is to meet his competitor's prices. No matter how intensive his sales efforts, or how cheaply the goods are bought, or the number of times he is able to increase his turnover, he cannot meet such competition by these means alone, because the goods are not sold at sufficient profit in the first place. The chain store is the retailer today who is making large sales, quick turnover and who has the lowest operating expense, yet it realizes the necessity of a line of "our goods" which shows a large margin of profit. The

necessity is equally urgent for the independent.

Can the independent druggist safely rely on independent manufacturers to supply him with this merchandise? To be sure they can supply him with it at a price less by the vast amount that is spent in advertising the advertised product. This is a remedy no doubt, but to develop the idea to its fullest, such manufacturing must be done cooperatively as it has been suggested that the independent's buying should be done. Carried to this point of development, cooperative manufacturing would then put him on an equal footing with the chain in this respect. No other means will enable him to make equal savings. It will be necessary for the druggist to get the greatest possible turnover on these items by means of his sales volume. This is possible by means of cooperative advertising and personal salesmanship. These will be discussed in this order.

COOPERATIVE ADVERTISING

There have been many different interpretations of the words cooperative advertising. What is meant here by the term is "common effort of competitors to increase their sales, improve market conditions, combat a common

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enemy, or in other ways to improve [1] the industry in which they have a mutual interest by advertising." The campaigns that have been launched up to the present have had various purposes in mind, some having had for their purpose, formation of habits, others for educational purposes on correcting bad trade practices, and still others, expanding the sales season. Many of these have been extremely successful in that they have accomplished the results wanted. The "Save the Surface" campaign launched in 1925, by the allied paint and varnish interests not only greatly stimulated, and increased the sale of these products, but the individual dealers profited from it far in excess of the small contributions they were called upon to make.

While this advertising has been of a type essentially different from that which would be required by the independent retail druggist to meet the competition of chain and department stores, the wide variety of uses to which cooperative advertising has been put, shows its possibilities for our purpose. The merchants of the Mission district of San Francisco have been operating a plan with gratifying success for the past ten years. All the merchants of the district contribute to a full

(1) Hugh E. Agnew," Cooperative Advertising by Competitors", p. 3

newspaper page, the purpose of the advertisement being first to present the Mission district as a good shopping center, and then the articles which they are offering in competition with the merchants of other districts. It serves the purpose of the department store advertisement, except that the departments are individual stores located throughout the district, rather than under one roof. Similarly, to compete with the mail order houses, about 200 hardware stores of Minnesota and the Dakotas are now conducting a cooperative advertising campaing. Messages are carried by a large sectional publication under the membership tag of its members which is prominently displayed on their store windows. In addition to this, electrotypes are furnished the members for local newspaper advertising, and other matter for store and house to house distribution. All this is furnished to members for the nominal cost of thirty-five dollars.

One cooperative advertising effort among the retail druggists has now developed to a point which verifies many of the possibilities which have been mentioned. A group of 8,000 personally owned drug stores representing customer members of the Mutual Drug Company and four other associated cooperative jobbers are now receiving the benefits of anintended permanent campaign

sponsored by their companies. Over 2,500 of these stores have signed contracts for the first six months of 1928. Under the terms of these contracts these druggists are being paid by the national advertisers for the use of the windows, as idea entirely new to the independent druggist, but a benefit the chains have enjoyed for several years.

What the Mutual Advertising department has secured for its members may be summed up as follows:(1)

A space of 30 inches once a week, or 15 inches twice a week in all cities of 10,000 or over in the Mutual territory covering 10 states with 212 cities as follows:

Pennsylvania	19 cities	Wisconsin	17 cities
Ohio	43 "	Iowa	15 "
Michigan	20 "	Missouri	11 "
Indiana	27 "	Kansas	14 "
Illinois	34 "	Oklahoma	12 "
			212 cities

Population

100,000 and over	14
50,000 to 100,000	24
25,000 to 50,000	48
10,000 to 25,000	126
total	212

The total cost of such a campaign costs the druggist is $1.00 per week and can be divided into 3 classes

(1) From an article by the president of the Mutual Drug Company in the Pharmacentical Era, February 1928 p.37

of stores according to their sales as follows:-

1st class	$2.00 a week	sales	$60,000. year
2nd "	1.00 " "	"	30,000. "
3rd "	.50 " "	"	15,000. "

Such an advertising program covering 30 inches of space in only one newspaper in each of these 212 cities would be equivalent to 45 full newspaper advertising pages each week, over 2,300 full pages a year----- an amount of space that would far exceed that used by all of chains in this territory.

Department stores have been the largest users of advertising space in daily and Sunday newspapers for years. Chains are getting to a point where they are using practically as much. The use of such advertising is prohibited to the independent druggist as the circulation of the newspaper in his particular locality is very limited, whereas, the department stores and the chain stores as a whole, draw from the whole area reached by the newspaper. The independent druggist must adopt some distinguishing slogan to identify him and benefit from such advertising as the chains do, dividing the expense as proposed by the Mutual Drug Company.

A great deal of the department and chain store success has been due to its ability to use this advertising. Correspondingly, the independent's chief

means of increasing his sales has been denied him. As his turnover and profits are dependent upon his ability to increase his volume of sales, he cannot afford to ignore the opportunity for so doing offered by cooperative advertising.

PERSONAL SALESMANSHIP

The one important inherent weakness in the chain store form of organization is the fact that ownership is seperated from direct store management---the owners never meet the customers. On the other hand, there is a natural barrier that seperates the drug store from the chain store, the department store or any other type of store handling drug store merchandise. The following comment is made editorially in a recent edition of a drug trade paper:(1)

"Small as the volume of prescription business may be in the average drug store today, the prescription department is the barrier between the pharmacist and unrestricted competition with general merchandising stores. It gives him his professional standing. Its proper conduct affords him the opportunity to cultivate the

(1) Merck's Report, January 1928 p.1

good will and confidence of physicians. It brings him into confidential relations with the people of his community. It offers the independent druggist his greatest hope of surviving the steadily encroaching competition of stores whose sole purpose is to sell merchandise."

How may the independent druggist take advantage of this natural barrier that seperates him from the competition with which this thesis deals? It is by practising personal salesmanship, because from the very nature of the business, the druggist and his clerks are better fitted to advise and suggest than salesmen in any other line of business. In almost every case his sympathetic interest and advice will be welcomed and accepted. It has been proven that advertising will not only create business but maintain business. The difference between salesmanship and advertising is not great. After all, words of mouth are a form of advertising and can be used most advantageously by every druggist.

Every druggist knows that all advertised proprietory medicines are not worth while. It would serve no useful purpose to comment further upon this here as a section of each copy of the American Medical Journal is

devoted to an analysis of most of them as they appear on the market, to which the reader may refer. Many of them under a trade marked name are only preparations of a standard formula. A space was devoted to a discussion of the necessity of a line of "own goods" by every druggist as a necessity to meet the practices of the chain store. We now have the opportunity of showing how the druggist can benefit to an extent not possible to any other retailer by increasing his sale of these and consequently his profits by personal salesmanship. To increase turnover from a sales standpoint two means are open to the independent in cooperative advertising and personal salesmanship. The former gives the opportunity to enjoy the benefits of advertising the cost of which by any other means is prohibitive. The second costs nothing in dollars yet gives the independent the opportunity to sell profitable merchandise, which all druggists who now have lines of "own goods", have not done up to the present.

CHAPTER VI

CONCLUSION

The competitive advantages and disadvantages of the independent retailer were enumerated in Chapter I, as well as those of his competitors here under discussion. In reviewing these at this time it will be noted that enormous purchasing power is the one element of competitive strength common to the department store, the mail order house and the chain store. In this respect the independent retailer has always been weak. The usual way to which this weakness has been referred ~~to~~ is to say that the first cost of goods is only one element in the whole cost; that cost is as much a matter of efficient management and shrewd selling as it is of low cost. The further advice usually given is that if the independent retailer should improve his management and selling methods he could compete successfully with these modern distributors.

Unquestionably the first statement is true but it would seem that a fairer way to state this fact would be to say that first cost is highly important;

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as much so as efficient management or shrewd selling. It has been the purpose of this study to show that questions concerning all three phases of retailing must be answered satisfactorily before the independent retailer will have solved his problem. If an article costs one druggist 70¢ and another 75¢ it is true that the latter could sell it for $1.00 and make as much profit on it as the former at the same selling price if his business was run so much more efficiently that he could save this difference in first cost. However, if the business of the first druggist is so efficiently managed that the second druggist cannot sufficiently lower his cost of doing business he cannot compete successfully with him.

This is exactly the condition in which the independent finds himself because the chain store at present represents the lastword in efficient management, as it has been shown that its costs of doing business is less than that of any other type of retailer. If any amount of further study develops a way by which the business of the independent can be as efficiently managed as that of the chain store, and the cost of doing business of each is equalized, they will still not be competing evenly until some way is devised whereby both can buy their merchandise at the same first cost. No study on

how the retail druggist can meet competition would be complete without considering the methods open to him which would enable him to buy his goods at as low prices as his competitors. Nor, if this question could be settled satisfactorily, could it be said that the independent could then compete successfully until the ways by which he could manage his business as efficiently or sell as many dollars worth of goods per dollar of investment were pointed out.

GOVERNMENT REGULATION AS A SOLUTION

It has been the policy of nearly all businesses in the past to allow as little interference as possible by the government. Since we have always had competition we must conclude that the majority of people want it. This applies to business men as well as to the general public.

In Chapter II it was shown that the United States had reached its enviable position under a system of competition. If the independent druggist constantly falls back upon the government to pass some law to help him out of his troubles, he may find that it will lead to complete socialization of his business. Complete regulation is undoubtedly a solution to the problem

but it is not a desirable one.

The policy pursued by Massachusetts in regard to legislation has thus far proved a wise one. Any law which will further classify preparations of a medicinal nature for the purpose of restricting their sale to registered drug stores will be advisable. This will take the sale of such article out of the hands of the "drugless drug store" and departments of stores not under the supervision of a registered druggist. Any law intended primarily to regulate and improve the professional side of the drug business to the end that the public needs will be better satisfied is advisable, but any law intending to limit the number of drug stores or otherwise regulate competition is not desirable.

PRICE MAINTENANCE AS A SOLUTION

For several years a great many druggists have been relying upon the passage of a price maintenance law, believing that such law will end cut prices on advertised goods, Since the growth of chain and department stores has been due to a great extent to such cut prices they believe that the growth of chains will not only be stopped but the way to meet their competition will be opened.

While these druggists have thus hoped, the opposition to such a law has successfully prevented its being passed. During this time department stores have continued to grow and have now begun to combine into chains themselves, or enter into consolidations of various kinds for the purpose of further increasing their buying power. Chain store growth has been phenominal. In the grocery trade, 38 per cent of the total retail grocery business is controlled by them. The corner grocery store has gone and the butcher is about to know the same fate. Chains of every conceivable sort are springing up. The two largest mail order houses have entered into the chain store field and plan together to operate 3000 chain department stores throughout the country. Should the druggist sit idly by any longer relying on such help when help seems no nearer than it did fifteen years ago?

Moreover the effect that a price maintenance law will have on chain and department stores is problematical since it has been shown in Chapter III that it does not answer the main economic problem presented by chain store distribution. Chains have been able to cut down distribution costs because their enormous purchasing power enables them to act as their own wholesaler and while it may be questionable whether or not they have succeeded

in eliminating some of the functions of the wholesaler, there can be no question about the fact that they have succeeded in reducing the cost of performing these functions If legislation will deprive them of the right to cut the prices of advertised goods they will still be able to cut the prices of non advertised goods. The possibilities of such price cutting can not be known. Furthermore, it will deprive the independent retailer of the only effective weapon he has in cooperative retail buying. Price maintenance legislation, in the opinion of the writer, is certainly not a solution.

COOPERATIVE BUYING AS A SOLUTION

Most independent retailers up to the present time have hesitated to endorse the cooperative wholesaler on the ground that the idea is radical. While the elimination of the wholesaler in the drug business is impossible, because of the nature of the business, yet it is not impossible for him to reorganize his methods. These jobbers are too numerous and many of their own number realize that their methods have been wasteful as was shown by the recent consolidation of fifteen of them discussed in Chapter IV.

In spite of this attitude of the majority of the druggists the cooperative wholesaler has continued to grow. He has grown to a size which will compel consideration of him in all future discussions of distribution of drug store merchandise. He has demonstrated his ability to perform the warehousing function of the wholesaler as economically as the chain store and for one-half what it is now costing the old line jobber. It is the one means that will enable the independent to buy his goods as cheaply as the chains, department stores, or mail order houses. Since, as has been repeatedly pointed out, equal first cost of merchandise is necessary in any complete solution of the independent's problem of competition, cooperative retail buying is the first step in our solution.

EFFICIENT MANAGEMENT

The chain store in particular has been able to eliminate unnecessary costs. It has been able to do this by operating on the smallest possible inventory, having developed the principle of stock simplification to the finest point reached by any retailer. Such simplification has resulted in decreasing the amount of fixed charges such as interest, taxes, depreciation and insurance,

enabling the chain to operate at the lowest possible per cent. It has enabled it also to increase turnover and profits. Definite statistical data is always at its disposal resulting from a detailed cost system showing exactly these various costs. In short, it has been managed more efficiently. The next step necessary in our solution is more efficient management which will result in the elimination of unncessary costs.

MORE PROFITABLE SALES

In the discussion of the relationship of turnover to profits, it was shown that as between items with a similar rate of profit such profit was increased by increased turnover. It was also shown that turnover of itself cannot produce a profit as each sale must be at a price which will more than cover the cost of the merchandise plus the cost of selling it. The greater this difference is the greater will be the profit. Because of competition and cut prices the druggist now finds himself confronted with the fact that the profits on about 50 per cent of his merchandise stock is less than his per cent cost of doing business based on his present sales volume. To overcome such a condition, it was shown that all the types of competition here under discussion

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had complete stocks of "own goods" on which the profits were so large that they balanced the smaller profits received on advertised goods.

To meet such competition and such methods there is no course open to the independent but to adopt the same methods. It is particularly advisable for him to do this since, as was shown under the discussion of personal salesmanship, the druggist is in a much better position than any of his competitors to move such merchandise because of the confidential relationship existing between him and his customers. The possibility of his securing these goods at as favorable prices as the chains lay in the cooperative wholesaler, who must operate a manufacturing plant, as the largest one of them now does, and supply the independent stores as the chain system supplies its unit stores with the resulting decrease in cost of advertising and distribution.

INCREASED VOLUME OF SALES

The remaining difficulties of the druggist in his struggle to compete with his large competitors are selling problems. Referring again to the discussion of turnover and profits, we found that by increasing sales was another way in which turnover could be increased

and consequently the profits, provided such increase was at a profit greater than the costs necessary to obtain such increase. The druggist then must increase his sales volume and the first way pointed out was by cooperative advertising.

Much of the success of the chain and department stores is due to the fact that they are heavy newspaper advertisers, the ability of advertising to create sales having been proven. They have been able to take advantage of this type of advertising because their customers are scattered throughout the district in which the particular newspapers in which they advertise are circulated. The use of such an advertising meduim is denied to the independent druggist, however, because his customers come from a very limited area adjacent to his store. The cost to him would be prohibitive in comparision to any increase he could expect in his sales from such advertising. Such cost can be easily met however, and the advertising made more effective for him by cooperative effort. It need not dwell on price only as chain store advertising does at present, but could be of an educational kind and dwell upon those things which the independent store can offer more advantageously than the chain, as for instance the

personal attention or advice of the owner and manager on matters of various kinds.

PERSONAL SALESMANSHIP

It may be pointed out finally that the independent retail druggist has one inherent point of strength that it will probably never be possible for the chain store, department store or mail order house to meet. This point he must constantly bear in mind and seek to develop it to its utmost. It is his opportunity to practice personal salesmanship. The druggist stands in a position occupied by no other retailer in that he is a druggist and supplies his customers with items which establish confidnetial relations with them. The fact that it is now generally considered unethical on the part of physicians to dispense their own medicines makes the druggist a sort of a partner with the doctor in the mind of the patient in the treatment of his illness.

For these reasons the druggist is in a most favorable position to advise and suggest, and by practicing personal salesmanship can move his "own goods" or any others which show him a decent profit. It is not necessary to go to a point or adopt methods by which the whole subject of predatory price cutting will again arise,

nor is it necessary to adopt a plan antagonistic to the advertiser. The druggist has many opportunities to sell profitable items without harm either to the customer or the advertiser.

The suggestions herein outlined are mainly of a cooperative nature in that they advise the independent retailer to adopt chain store methods by himself becoming a member of a chain and reap the benefits that the chains are receiving because of large scale buying and selling. If carried to the most extreme point of cooperative effort there will always be one essential difference between the chains. One type of store will be independently owned, the owner will always be manager and will meet his customers personally. This store will always have a personality ---that of the owner himself. The other type will always be a unit store of a chain with no individuality other than that of the chain itself.

SUMMARY

To meet the competition of the department store, chain stores, and mail order house, the independent retial druggist must:

I. Buy as economically as they, by means of

cooperative retail buying

II Manage his store as economically as they by eliminating unncessary costs due to large stocks and decreased volume of sales.

III. Increase his profits by having a line of "own goods" on which the larger profits received will offset the smaller profits resulting from cut prices.

IV. Increase his sales volume by

(a) Cooperative advertising

(b) Personal salesmanship.

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